NEW JERSEY STATE LEGISLATURE

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Frank W. Haines III, Assistant Legislative Budget and Finance Officer
Glenn E. Moore, III, Director, Central Staff
David J. Rosen, Section Chief, Revenue, Finance and Appropriations Section

This report was prepared by the Revenue, Finance and Appropriations Section of the Office of Legislative Services under the direction of the Legislative Budget and Finance Officer. The primary author was Thomas Koenig. Luke E. Wolff authored the background paper entitled “Asset Monetization and the State Lottery”.

Questions or comments may be directed to the OLS Revenue, Finance and Appropriations Section (609-984-6798) or the Legislative Budget and Finance Office (609-292-8030).
DEPARTMENT OF THE TREASURY

Fiscal Summary ($000)

<table>
<thead>
<tr>
<th></th>
<th>Expended FY 2006</th>
<th>Adjusted Appropriation FY 2007</th>
<th>Recommended FY 2008</th>
<th>Percent Change 2007-08</th>
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<tbody>
<tr>
<td>State Budgeted</td>
<td>2,469,979</td>
<td>2,898,905</td>
<td>4,131,629</td>
<td>42.5%</td>
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<tr>
<td>Federal Funds</td>
<td>3,533</td>
<td>6,747</td>
<td>5,416</td>
<td>(19.7%)</td>
</tr>
<tr>
<td>Other</td>
<td>1,125,027</td>
<td>1,057,982</td>
<td>1,100,091</td>
<td>4.0%</td>
</tr>
<tr>
<td>Grand Total</td>
<td>$3,598,539</td>
<td>$3,963,634</td>
<td>$5,237,136</td>
<td>32.1%</td>
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Personnel Summary - Positions By Funding Source

<table>
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<tr>
<th></th>
<th>Actual FY 2006</th>
<th>Revised FY 2007</th>
<th>Funded FY 2008</th>
<th>Percent Change 2007-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>4,207</td>
<td>4,115</td>
<td>4,311</td>
<td>4.8%</td>
</tr>
<tr>
<td>Federal</td>
<td>12</td>
<td>10</td>
<td>16</td>
<td>60.0%</td>
</tr>
<tr>
<td>Other</td>
<td>2,424</td>
<td>2,343</td>
<td>2,481</td>
<td>5.9%</td>
</tr>
<tr>
<td>Total Positions</td>
<td>6,643</td>
<td>6,468</td>
<td>6,808</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

FY 2006 (as of December) and revised FY 2007 (as of September) personnel data reflect actual payroll counts. FY 2008 data reflect the number of positions funded.

To be consistent with the data display in the Governor’s budget, the above table includes the funding and position data in the Department of the Treasury for Higher Educational Services; the Economic Planning and Development program; and the New Jersey Commission on Science and Technology. Other explanatory data for these agencies are not included in this analysis but are contained in two separate booklets: “Higher Educational Services” and “Commerce, Economic Growth and Tourism Commission and Related Economic Development Programs.”

Key Points

- The Governor recommends that the FY 2008 Department of the Treasury appropriation increase by $1.27 billion, or 32.1 percent, to $5.24 billion. While a multitude of changes produce this net effect, the $1.19 billion in additional funding for the revised Homestead Property Tax Rebate/Credit program represents 93.7 percent of the department’s recommended appropriation growth.
Key Points (Cont’d)

- The Governor’s Budget provides for 6,808 funded positions in the Department of the Treasury, 340 positions, or 5.3 percent, more than actual positions in FY 2007. The following programs contribute 265 positions to the increase: the Office of the Public Defender (98 positions), the new Office of the State Comptroller and the Office of Information Technology (59 positions each), and Financial Administration (49 positions).

TREASURY OPERATIONS

- The Governor’s Fiscal Year 2008 Budget includes a $9 million appropriation for the new Office of the State Comptroller, which would fund 59 positions.

- The Governor’s Budget proposes carrying into FY 2008 the entire $3 million supplemental FY 2007 appropriation to the new Office of the Medicaid Inspector General located in the Office of the Inspector General. The office will not be operational before FY 2008 and the Administration anticipates that no additional FY 2008 appropriation will be necessary.

- The Governor’s Budget recommends carrying into FY 2008 the $6.75 million supplemental FY 2007 appropriation to the New Jersey Fair and Clean Elections Fund to finance the election campaigns of candidates certified for public funding in three legislative districts during the 2007 general election.

- The Governor’s Budget seeks to shift the $8.7 million Division of Investment appropriation off-budget in FY 2008. Through FY 2007, the division’s expenses have been included within on-budget appropriations, offset by revenue transferred to the General Fund from several investment funds, including the State’s pension and benefits funds. In FY 2008, however, these expenses would be charged directly to the investment funds.

- As in past years, the Governor’s Budget includes broad language that would permit the appropriation of additional resources for both the Division of Taxation and the Division of Revenue without further legislative action.

- The Administration proposes replacing the Office of Information Technology revolving fund for FY 2008 with a direct State appropriation of $83.7 million (offset by corresponding reductions in the departments’ information technology budgets). The office would continue to bill State agencies for services provided to programs financed by federal or dedicated funds, which would contribute an estimated $62.8 million to the office’s total $146.5 million budget.

- The Governor’s Budget includes a language provision that would appropriate the amounts necessary to pay for consulting services needed in assessing the feasibility of selling or leasing State assets.
Key Points (Cont’d)

PROPERTY TAX RELIEF: GRANTS-IN-AID AND STATE AID

- The Governor’s Budget contains $3.45 billion for property tax relief in the Department of the Treasury, which exceeds the FY 2007 appropriation by $1.22 billion, or 54.4 percent. Grants-in-Aid, which finance direct property tax relief to residents, account for $2.40 billion of the total ($1.22 billion, or 103 percent, more than in FY 2007) and State Aid to local subdivisions of State government for the remaining $1.04 billion ($4.9 million, or 0.5 percent, less than in FY 2007). Table 1 on page 5 lists the individual components of the recommended State Aid total.

- The Governor’s Budget proposes increasing the appropriation to the Homestead Property Tax Credit program from $1.06 billion in FY 2007 to $2.25 billion in FY 2008, an increase of $1.19 billion, or 113 percent. The expenditure growth reflects the program’s recent statutory changes pursuant to P.L.2007, c.62 and the discontinuation of a FY 2007 language provision restricting statutory program benefits. The background paper entitled “The History of Homestead Rebates” starting on page 68 of this analysis provides details on historical budgetary outlays for the program and its changing benefit levels.

- The Governor’s Budget recommends increasing funding for the Senior and Disabled Citizens’ Property Tax Freeze program by $26.5 million, or 20.9 percent, to $153 million in FY 2008. Rising property tax liabilities and increasing program participation account for the expenditure growth. The Executive expects 164,000 program participants in FY 2008, about 1,000 more than in FY 2007. At the same time, the average benefit is projected to grow from $776 to $933.

- The Governor’s Budget recommends that municipalities receive $920.3 million from the off-budget Energy Tax Receipts Property Tax Relief Fund in FY 2008, a $48 million, or 5.5 percent, increase over FY 2007. This appropriation is comprised of three funding sources: $788.5 million from the Energy Tax Receipts Property Tax Relief Fund proper, a $124.8 million transfer from the Consolidated Municipal Property Tax Relief Aid account to the fund, and a $7.0 million transfer from Special Municipal Aid to the fund.

- The Solid Waste Management – County Environmental Investment Debt Service Aid program assists counties and county utility authorities in meeting debt service obligations for solid waste disposal investments. The Governor’s Budget recommends decreasing funding from $40 million to $35 million in FY 2008 because of declining debt service cost.

- The Governor’s Budget proposes a $1.28 billion FY 2008 State contribution to the various retirement systems, which represents 55 percent of the State’s $2.33 billion full funding requirement. This total includes a recommended unchanged State Aid appropriation to local governmental entities for pension obligations under the Police and Firemen’s Retirement System of $60 million. The system provides pension coverage to all full-time county, municipal, and State police officers and firefighters (but not to State Police troopers).
Key Points (Cont'd)

TREASURY DEBT SERVICE AND REVENUES

- The Governor's Budget for the department includes $383.6 million for Debt Service payments on general obligation bonds. This amount represents an increase of $20.5 million, or 5.6 percent, from FY 2007. Refunding bonds account for $10.74 million of the increase and interest payments on yet to be determined future bond sales for $16.05 million. The Governor envisions roughly $200 million in new bond issuance in FY 2008 pursuant to authorized but not yet issued bonding authority.

- The Governor's Budget recommends transferring to the General Fund the $43.2 million in anticipated proceeds from 21.4 percent of FY 2008 collections from the 2004 cigarette tax increase of $0.65 per pack of cigarettes. The "Cigarette Tax Securitization Act of 2004" initially allowed the issuance of bonds backed by this revenue stream, but the New Jersey Supreme Court constrained the use of these funds in Lance v. McGreevey, 180 N.J. 590 (2004). Absent further securitization, these cigarette tax revenues are available to support general State purposes.

- The Governor's Budget proposes the elimination of two language provisions that diverted $29.7 million in off-budget funds from their statutorily dedicated spending purposes to the General Fund in FY 2007: $24.7 million in New Jersey Public Records Preservation account receipts from the (2003) $5 increase in each of the county recording fees for counties' and municipalities' management, storage, and preservation of public records; and $5 million in New Jersey Domestic Security account revenues from the first $2 of the $5 per day rental vehicle surcharge for medical emergency disaster preparedness for bioterrorism, security coverage at nuclear facilities, State Police salaries related to Statewide security services, and counter-terrorism programs. These sums would support their statutory purposes in FY 2008.

Background Papers:

Asset Monetization and the State Lottery ................................................................. p. 64
The History of Homestead Rebates ................................................................. p. 68
Table 1
Department of the Treasury
State Aid to Local Government Entities
FY 2006 – FY 2008

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Tax Receipts*</td>
<td>$834,677</td>
<td>$788,492</td>
<td>$788,492</td>
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<tr>
<td>Municipal Reimbursement for Veterans’ Property Tax Deductions</td>
<td>76,329</td>
<td>76,400</td>
<td>76,400</td>
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<tr>
<td>Police &amp; Firemen’s Retirement System</td>
<td>23,700</td>
<td>39,001</td>
<td>39,001</td>
</tr>
<tr>
<td>Police &amp; Firemen’s Retirement System – Post Retirement Medical</td>
<td>19,570</td>
<td>22,155</td>
<td>23,521</td>
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<tr>
<td>Solid Waste Management – Debt Service Aid</td>
<td>55,963</td>
<td>40,000</td>
<td>35,000</td>
</tr>
<tr>
<td>Municipal Reimbursement for Senior and Disabled Citizens’ Property Tax Deductions</td>
<td>22,652</td>
<td>22,700</td>
<td>22,700</td>
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<tr>
<td>Debt Service – Pension Obligation Bonds</td>
<td>7,766</td>
<td>9,379</td>
<td>10,206</td>
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<tr>
<td>South Jersey Port Corporation – Debt Service Reserve Fund</td>
<td>6,455</td>
<td>7,256</td>
<td>7,256</td>
</tr>
<tr>
<td>South Jersey Port Corporation – Property Tax Reserve Fund</td>
<td>2,442</td>
<td>2,540</td>
<td>2,540</td>
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<tr>
<td>Highlands Protection Fund - Highlands Property Tax Stabilization Aid</td>
<td>0</td>
<td>3,600</td>
<td>3,600</td>
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<tr>
<td>Highlands Protection Fund - Incentive Planning Aid</td>
<td>0</td>
<td>2,650</td>
<td>2,650</td>
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<tr>
<td>Highlands Protection Fund - Watershed Moratorium Offset Aid</td>
<td>2,218</td>
<td>2,200</td>
<td>2,200</td>
</tr>
<tr>
<td>Highlands Protection Fund - Pinelands Property Tax Stabilization Aid</td>
<td>1,800</td>
<td>1,800</td>
<td>1,800</td>
</tr>
<tr>
<td>Highlands Protection Fund - Regional Master Plan Compliance Aid</td>
<td>143</td>
<td>1,750</td>
<td>1,750</td>
</tr>
<tr>
<td>Other Distributed Taxes</td>
<td>4,090</td>
<td>3,363</td>
<td>3,363</td>
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<tr>
<td>County Boards of Taxation</td>
<td>1,897</td>
<td>2,289</td>
<td>2,289</td>
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<tr>
<td>Consolidated Police &amp; Firemen’s Pension Fund</td>
<td>6,397</td>
<td>1,784</td>
<td>523</td>
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<tr>
<td>Miscellaneous Local Project Support</td>
<td>1,000</td>
<td>860</td>
<td>0</td>
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</table>

Total State Aid $1,080,416 $1,049,230 $1,044,302

* In the Governor’s Budget, the $834,677,000 expended in FY 2006 includes a transfer to the fund, which the FY 2007 and 2008 totals exclude (see pages 35 and 36 of this analysis).
### Fiscal and Personnel Summary

#### AGENCY FUNDING BY SOURCE OF FUNDS ($000)

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td><strong>General Fund</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct State Services</td>
<td>$442,100</td>
<td>$450,470</td>
<td>$429,015</td>
<td>(3.0%)</td>
<td>(4.8%)</td>
</tr>
<tr>
<td>Grants-In-Aid</td>
<td>213,522</td>
<td>404,302</td>
<td>414,606</td>
<td>94.2%</td>
<td>2.5%</td>
</tr>
<tr>
<td>State Aid</td>
<td>294,340</td>
<td>302,734</td>
<td>298,169</td>
<td>1.3%</td>
<td>(1.5%)</td>
</tr>
<tr>
<td>Capital Construction</td>
<td>507</td>
<td>6,916</td>
<td>6,500</td>
<td>1182.1%</td>
<td>(6.0%)</td>
</tr>
<tr>
<td>Debt Service</td>
<td>144,650</td>
<td>363,121</td>
<td>383,608</td>
<td>165.2%</td>
<td>5.6%</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td><strong>$1,095,119</strong></td>
<td><strong>$1,527,543</strong></td>
<td><strong>$1,531,898</strong></td>
<td><strong>39.9%</strong></td>
<td><strong>0.3%</strong></td>
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<tr>
<td><strong>Property Tax Relief Fund</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct State Services</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Grants-In-Aid</td>
<td>1,194,334</td>
<td>1,183,788</td>
<td>2,404,000</td>
<td>101.3%</td>
<td>103.1%</td>
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<tr>
<td>State Aid</td>
<td>151,756</td>
<td>158,134</td>
<td>166,291</td>
<td>9.6%</td>
<td>5.2%</td>
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<tr>
<td><strong>Sub-Total</strong></td>
<td><strong>$1,346,090</strong></td>
<td><strong>$1,341,922</strong></td>
<td><strong>$2,570,291</strong></td>
<td><strong>90.9%</strong></td>
<td><strong>91.5%</strong></td>
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<tr>
<td><strong>Casino Revenue Fund</strong></td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Casino Control Fund</strong></td>
<td>$28,770</td>
<td>$29,440</td>
<td>$29,440</td>
<td>2.3%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>State Total</strong></td>
<td><strong>$2,469,979</strong></td>
<td><strong>$2,898,905</strong></td>
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<td><strong>67.3%</strong></td>
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<td>4.0%</td>
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<td><strong>Grand Total</strong></td>
<td><strong>$3,598,539</strong></td>
<td><strong>$3,963,634</strong></td>
<td><strong>$5,237,136</strong></td>
<td><strong>45.5%</strong></td>
<td><strong>32.1%</strong></td>
</tr>
</tbody>
</table>

#### PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

<table>
<thead>
<tr>
<th></th>
<th>Actual FY 2006</th>
<th>Revised FY 2007</th>
<th>Funded FY 2008</th>
<th>Percent Change 2006-08</th>
<th>Percent Change 2007-08</th>
</tr>
</thead>
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<td>4,311</td>
<td>2.5%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Federal</td>
<td>12</td>
<td>10</td>
<td>16</td>
<td>33.3%</td>
<td>60.0%</td>
</tr>
<tr>
<td>All Other</td>
<td>2,424</td>
<td>2,343</td>
<td>2,481</td>
<td>2.4%</td>
<td>5.9%</td>
</tr>
<tr>
<td><strong>Total Positions</strong></td>
<td><strong>6,643</strong></td>
<td><strong>6,468</strong></td>
<td><strong>6,808</strong></td>
<td><strong>2.5%</strong></td>
<td><strong>5.3%</strong></td>
</tr>
</tbody>
</table>

FY 2006 (as of December) and revised FY 2007 (as of September) personnel data reflect actual payroll counts. FY 2008 data reflect the number of positions funded.

#### AFFIRMATIVE ACTION DATA

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<table>
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<th></th>
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<tbody>
<tr>
<td>Total Minority Percent</td>
<td>22.1%</td>
<td>25.0%</td>
<td>24.5%</td>
<td></td>
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### Significant Changes/New Programs ($000)

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<tr>
<td><strong>ECONOMIC REGULATION</strong></td>
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<tr>
<td><strong>BOARD OF PUBLIC UTILITIES</strong></td>
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<tr>
<td><strong>Federal Funds:</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Energy Resource Management</td>
<td>$4,019</td>
<td>$3,588</td>
<td>($431)</td>
<td>(10.7%)</td>
<td>D-439</td>
</tr>
</tbody>
</table>

Two factors explain the expected FY 2008 decrease in federal funds for the Board of Public Utilities’ (BPU) energy resource management. First, the BPU no longer anticipates $500,000 from the United States Department of Energy for a New Jersey “Industries of the Future” program. The BPU has budgeted this amount in the past but the program has never materialized. State “Industries of the Future” programs finance renewable energy and energy efficiency projects for energy-intensive industries. Second, the BPU expects a $69,000 increase, from $2.58 million to $2.65 million, in federal funds for its State Energy Conservation program whose residential and commercial programs include ridesharing, lighting efficiency, and improved construction programs.

| **All Other Funds:**      |                              |                                 |               |               |             |
| Energy Resource Management | $820                         | $1,300                          | $480          | 58.5%         | D-439       |

This budget line represents the administrative expenses of New Jersey’s Clean Energy Program. The additional resources would fund six new positions to strengthen program oversight and contract monitoring at a time when contractors assume the program’s administration from the utility industry.

The BPU oversees New Jersey’s Clean Energy Program, created as part of P.L.1999, c.23 (C.48:3-49 et seq.), through which the State seeks to promote increased energy efficiency and the use of clean, renewable sources of energy including solar, wind, geothermal, and sustainable biomass. The program’s financial incentives support residents’ purchases of high efficiency heating and cooling systems, commercial energy efficiency projects, installations of solar electric or other renewable energy systems, and the planting of trees, among other initiatives. New Jersey ratepayers fund the program via the societal benefits charge included in ratepayers’ electric and gas bills. The Governor’s Fiscal Year 2008 Budget anticipates $313.4 million in Clean Energy Fund outlays (page H-6).
### Significant Changes/New Programs ($000) (Cont'd)

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Adj. Approp. FY 2007</th>
<th>Recomm. FY 2008</th>
<th>Dollar Change</th>
<th>Percent Change</th>
<th>Budget Page</th>
</tr>
</thead>
</table>

**GOVERNMENTAL REVIEW AND OVERSIGHT**

**OFFICE OF THE STATE COMPTROLLER**

General Fund,
Direct State Services:
Office of the
State Comptroller

$0 $9,000 $9,000 — D-442

P.L.2007, c.52 created the Office of the State Comptroller “in but not of” the Department of the Treasury. The new office would be headed by an appointed State Comptroller and its projected 59 employees would engage in procurement contract audits and monitoring, conduct regular financial audits, and review the performance of State and local governmental entities. Although authorizing legislation was enacted in March of 2007, the Office of the State Comptroller is not expected to be operational before FY 2008.

**OFFICE OF THE INSPECTOR GENERAL**

General Fund,
Direct State Services--Special Purpose:
Office of the
Medicaid Inspector General

$3,000 $0 ($3,000) (100.0%) D-444

The “Medicaid Program Integrity and Protection Act”, P.L.2007, c.58, established the Office of the Medicaid Inspector General as an office within the Office of the Inspector General to prevent, detect, investigate, and reduce fraud, waste, and abuse in the State’s Medicaid program. The act included a $3 million FY 2007 supplemental appropriation, but the office is unlikely to be operational before FY 2008. Consequently, in lieu of a FY 2008 appropriation, the Governor’s Budget includes a language provision carrying the office’s unexpended $3 million supplemental appropriation forward into the next fiscal year. The federal government matches State expenditures 200 percent through the Medicaid program (or $6 million for the $3 million State appropriation).
### Significant Changes/New Programs ($000) (Cont'd)

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Adj. Approp. FY 2007</th>
<th>Recomm. FY 2008</th>
<th>Dollar Change</th>
<th>Percent Change</th>
<th>Budget Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund, Direct State Services: Services Other Than Personal</td>
<td>$58,036</td>
<td>$47,418</td>
<td>($10,618)</td>
<td>(18.3%)</td>
<td>D-448</td>
</tr>
</tbody>
</table>

Three components produce the decrease in this budget line: 1) the nonrecurrence of a $4.7 million FY 2007 supplemental appropriation for contractor payments under the Division of Investment's asset diversification initiative; 2) the nonrenewal of a $3.5 million supplemental FY 2007 appropriation for a debt collection contract with an outside vendor (however, the Governor's Budget includes a language provision on page D-449 allowing for supplemental FY 2008 appropriations of unspecified amounts for debt collection activities without additional legislative approval); and 3) the decision to shift $2.4 million in Division of Investment administrative expenses off-budget in FY 2008 by charging them directly to the several investment funds, including the State's pension and benefits funds (through FY 2007, the division's expenses have been included within on-budget appropriations, offset by revenue transferred to the General Fund from the investment funds).

### DIVISION OF TAXATION

| General Fund, Direct State Services-- Special Purpose: Property Assessment Management System (PAMS) | $0 | $1,900 | $1,900 | — | D-448 |

The recommended appropriation increase for PAMS does not fully represent spending growth. In FY 2007, the State supported PAMS with $1.4 million of previously unexpended balances. For FY 2008, the Governor anticipates total expenditures of $2.7 million to which the new appropriation would contribute $1.9 million and remaining unexpended balances $800,000. The higher FY 2008 PAMS expenditures represent the system's planned implementation for the first three counties (Camden, Hunterdon, and Salem) in the fourth quarter of calendar year 2007.

Under development since it was initially funded in FY 2001, the web-based PAMS has as an objective to enhance property assessment and tax collection processes by allowing the Division of Taxation to aggregate and analyze local real property data that the State, county boards of taxation, and municipal assessors can use to generate tax lists, assessments, and various reports. The proposed appropriation reimburses the Office of Information Technology for the cost of implementing PAMS on behalf of the division.
Significant Changes/New Programs ($000) (Cont’d)

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Adj. Approp. FY 2007</th>
<th>Recomm. FY 2008</th>
<th>Dollar Change</th>
<th>Percent Change</th>
<th>Budget Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All Other Funds:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation Services and Administration</td>
<td>$30,785</td>
<td>$35,785</td>
<td>$5,000</td>
<td>16.2%</td>
<td>D-449</td>
</tr>
</tbody>
</table>

This line aggregates several off-budget funds administered by the Division of Taxation. Its amounts reflect the funds’ administrative expenses and transfers from the funds to other State agencies. In FY 2008, three components account for $34.9 million of the $35.8 million appropriation: (1) $23.5 million transferred from the New Jersey Domestic Security Account—which contains the proceeds from the first $2 of the $5 per day vehicle rental surcharge pursuant to section 54 of P.L.2002, c.34 (C.App.A:9-78), as amended by P.L.2006, c.42—to the Departments of Agriculture, Health and Senior Services, and Law and Public Safety for medical emergency disaster preparedness for bioterrorism, security coverage at nuclear facilities, State Police salaries related to Statewide security services, and counter-terrorism programs; (2) $6.9 million for the administration of the Unclaimed Personal Property Trust Fund, which holds all funds from unclaimed property presumed abandoned pursuant to N.J.S.A.46:30B-74; and (3) $4.5 million for the cost of Division of Taxation Compliance and Enforcement Activities.

The $5 million FY 2008 increase in this line reflects the proposed discontinuation of a FY 2007 language provision that diverted $5 million in New Jersey Domestic Security Account receipts to the General Fund and thereby superseded the statutory dedication of those receipts.

DIVISION OF REVENUE

| General Fund, Direct State Services—Special Purpose: New Jersey Fair and Clean Elections Fund | $6,750 | $0 | ($6,750) | (100.0%) | D-448 |

“The 2007 New Jersey Fair and Clean Elections Pilot Project Act”, P.L.2007, c.60, included a $6.75 million supplemental appropriation to the newly-created New Jersey Fair and Clean Elections Fund (which also receives funding from other sources). Amounts in the fund finance the election campaigns of candidates certified for public funding in three legislative districts during the 2007 general election. A language provision carries the unexpended fund balance at the end of FY 2007 forward into the next fiscal year.

| All Other Funds: Administration of State Revenues | $58,225 | $82,925 | $24,700 | 42.4% | D-449 |

This line aggregates several off-budget funds administered by the Division of Revenue. Its amounts reflect the funds’ administrative expenses and transfers from the funds to other State agencies. In FY 2008, three transfers account for $82.7 million of the $83.0 million
Significant Changes/New Programs ($000) (Cont'd)

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Adj. Appropri. FY 2007</th>
<th>Recomm. FY 2008</th>
<th>Dollar Change</th>
<th>Percent Change</th>
<th>Budget Page</th>
</tr>
</thead>
</table>

appropriation: (1) $45.0 million transferred from the Division of Developmental Disabilities Community Placement and Services Fund—which contains the proceeds from the 5.8 percent assessment on the annual gross revenue of intermediate care facilities for the mentally retarded pursuant to P.L.1998, c.40 (C.30:6D-43 et seq.)—to the Division of Developmental Disabilities in the Department of Human Services for reducing its waiting list, making appropriate community placements, and providing support services; (2) $25.7 million transferred from the New Jersey Public Records Preservation account—which holds the proceeds of the $5 increase in recording fees charged by county clerks and registers since 2003 under section 38 of P.L.2003, c.177 (C.22A:4-4.1)—to the Department of State for the management, storage, and preservation of public records by the State, counties and municipalities; and (3) $12.0 million transferred to the Motor Vehicle Commission from collections of deficient and delinquent motor vehicle surcharges by contractors.

The $24.7 million FY 2008 increase in this line reflects the proposed discontinuation of a FY 2007 language provision that allocated to the General Fund $27.0 million of the $28.0 million in anticipated FY 2007 New Jersey Public Records Preservation account receipts statutorily intended for county and municipal use. The $25.7 million in this account in FY 2008 represents the county and municipal portion of the $62.8 million in anticipated FY 2008 recording fee collections.

DIVISION OF INVESTMENT

<table>
<thead>
<tr>
<th>General Fund, Direct State Services: Management of State Investments</th>
<th>$13,387</th>
<th>$0</th>
<th>($13,387)</th>
<th>(100.0%)</th>
<th>D-448</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Other Funds: Management of State Investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>D-449</td>
</tr>
<tr>
<td></td>
<td>$0</td>
<td>$8,687</td>
<td>$8,687</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>$13,387</td>
<td>$8,687</td>
<td>($4,700)</td>
<td>(35.1%)</td>
<td></td>
</tr>
</tbody>
</table>

The Governor's Budget seeks to shift the Division of Investment appropriation off-budget in FY 2008. Through FY 2007, the Division of Investment's expenses have been included within on-budget appropriations, offset by revenue transferred to the General Fund from several investment funds, including the State's pension and benefits funds. In FY 2008, however, these expenses would be charged directly to the investment funds and reflected as "All Other Funds". A corresponding decrease in General Fund revenue results from this shift.

The recommended FY 2008 expenditure would fall by $4.7 million because of the nonrecurrence of $4.7 million in contractor payments for the asset diversification initiative. On July 20, 2006, the State Investment Council voted to alter the investment strategy for the State pension funds. According to newspaper reports, this modification seeks to reallocate pension
Significant Changes/New Programs ($000) (Cont’d)

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Adj. Approp. FY 2007</th>
<th>Recomm. FY 2008</th>
<th>Dollar Change</th>
<th>Percent Change</th>
<th>Budget Page</th>
</tr>
</thead>
</table>

fund resources among different asset classes so as to enhance and stabilize returns. The new strategy involves shifting the management of 25 percent (up from 13 percent) of the pension funds’ portfolio from division employees to private money managers by the end of 2007 at an additional cost of at least $200 million per year in fees.

GENERAL GOVERNMENT SERVICES

DIVISION OF PROPERTY MANAGEMENT AND CONSTRUCTION

General Fund,
Direct State Services:
Property Management and Construction – Property Management Services

$14,172 $14,422 $250 1.8% D-453

The repair by the Division of Property Management and Construction of 100 of the 800 heat pumps at the Trenton Department of Environmental Protection building accounts for $205,000 of the FY 2008 increase in this budget line. Capital funds have financed this annually recurring expenditure through FY 2007, but it would become a direct state services outlay in FY 2008.

The division manages the real estate needs of State government. It purchases, sells, and leases office, warehouse, and other space for all State government entities, with certain exceptions. The division also provides full maintenance services for 40 State-owned buildings in the Trenton area, renovation and alteration services valued below $39,600, and related contract administration services.

OFFICE OF INFORMATION TECHNOLOGY

General Fund,
Direct State Services– Special Purpose:
Office of Information Technology

$60,125 $62,821 $2,696 4.5% D-460

This budget line represents transfers of federal and dedicated funds from State agencies to the Office of Information Technology (OIT) for billable services performed by OIT. The requested $2.7 million increase would fund an upgrade of certain OIT telecommunications lines to accommodate increased business needs and data traffic among the programs financed by federal and dedicated funds.
Significant Changes/New Programs ($000) (Cont’d)

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Adj. Approp. FY 2007</th>
<th>Recomm. FY 2008</th>
<th>Dollar Change</th>
<th>Percent Change</th>
<th>Budget Page</th>
</tr>
</thead>
</table>
| OIT provides information technology services to State agencies and has a recommended FY 2008 budget of $146.5 million for 971 employees. Excluding the proposed $28.7 million for the Office of Emergency Telecommunication Services, OIT's recommended FY 2008 appropriation is $117.8 million. Of this amount, transfers of federal and dedicated funds from State agencies for billable OIT services account for $62.8 million, or 53.3 percent, and General Fund appropriations for the remaining $55.0 million, or 46.7 percent.

General Fund,
Direct State Services:
Services Other Than
Personal

|                    | 13,340 | 15,252 | 1,912 | 14.3% | D-460 |

The proposed increase in this budget line represents costs attributable to mainframe maintenance and leased telecommunications lines for the Garden State Network. Composed of over 3,000 devices at approximately 2,000 locations, the Garden State Network is a Statewide integrated communications network allowing for intra- and inter-agency communication as well as communication with the public over the Internet.

General Fund,
Direct State Services--
Special Purpose:
Network Infrastructure

|                    | 6,968  | 3,200  | (3,768) | (54.1%) | D-460 |

This account provides Office of Information Technology (OIT) line of credit financing for network infrastructure upgrades, maintenance, and programming charges. Two factors explain the recommended $3.8 million decline in the FY 2008 appropriation: line of credit maturation accounts for $2.8 million and a reallocation from this account into OIT’s non-salary operating accounts for lease payments on OC3 lines for $1 million. The line of credit program finances the State’s short-term (three years) equipment needs, such as computers, furniture, and vehicles purchases.

General Fund,
Direct State Services--
Special Purpose:
Statewide 911 Emergency Telecommunications System

|                    | 17,567 | 12,567 | (5,000) | (28.5%) | D-460 |

This account funds the Statewide 911 Emergency Telephone System administered by the Office of Emergency Telecommunication Services in the Office of Information Technology. Expenses include debt service payments on the current 911 systems, provider charges, provider
maintenance charges, access fees, and geographic information system (GIS) wireless telephone mapping. The recommended $5 million decrease for FY 2008 reflects a $2.5 million decline in GIS costs and a $2.5 million decline in projected payments on local exchange carrier toll charges.

**General Fund,**
**Capital Construction:**
**Data Storage and Infrastructure**

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Adj. Approp. FY 2007</th>
<th>Recomm. FY 2008</th>
<th>Dollar Change</th>
<th>Percent Change</th>
<th>Budget Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Storage and Infrastructure</td>
<td>$0</td>
<td>$3,000</td>
<td>$3,000</td>
<td></td>
<td>D-460</td>
</tr>
</tbody>
</table>

The Governor's Budget includes $3 million in FY 2008 for the purchase of additional data storage, consistent with a recommendation by the New Jersey Commission on Capital Budgeting and Planning. Since 2002, the Office of Information Technology (OIT) has been operating a Storage Area Network (SAN) that provides data storage to State agencies and serves over 200 server-run applications. OIT estimates that the current SAN capacity will be fully utilized by the end of FY 2007, thereby necessitating the purchase of additional storage. Since inception in 2002, SAN will have grown from two terabytes to a projected 126 terabytes by the end of FY 2007.

**General Fund,**
**Capital Construction:**
**Critical Facility Preservation**

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Adj. Approp. FY 2007</th>
<th>Recomm. FY 2008</th>
<th>Dollar Change</th>
<th>Percent Change</th>
<th>Budget Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Critical Facility Preservation</td>
<td>$0</td>
<td>$2,000</td>
<td>$2,000</td>
<td></td>
<td>D-460</td>
</tr>
</tbody>
</table>

This appropriation would fund the replacement of information technology equipment at three Office of Information Technology (OIT) facilities that house hardware supporting the Garden State Network, a statewide integrated communications network allowing for intra- and inter-agency communication as well as communication with the public over the Internet. Specifically, the appropriation would support the replacement of Uninterruptible Power Service (UPS) systems at three facilities, the replacement of an air conditioner in the battery and UPS room at one facility, and the incorporation of the server room into the main computer room at one facility. The New Jersey Commission on Capital Budgeting and Planning has recommended $2.3 million for these purposes. In its agency capital budget request, OIT noted that funding for these projects was needed "to provide sufficient electrical power, minimize electric component failures, keep operating areas within proper temperature limits and maintain the required 24/7 operational status of the State's [information technology] infrastructure".
Significant Changes/New Programs ($000) (Cont'd)

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Adj. Approp. FY 2007</th>
<th>Recomm. FY 2008</th>
<th>Dollar Change</th>
<th>Percent Change</th>
<th>Budget Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund, Capital Construction: Enterprise Upgrade—Garden State Network</td>
<td>$0</td>
<td>$1,500</td>
<td>$1,500</td>
<td>—</td>
<td>D-460</td>
</tr>
</tbody>
</table>

Composed of over 3,000 devices at approximately 2,000 locations, the Garden State Network is a Statewide integrated communications network allowing for intra- and inter-agency communication as well as communication with the public over the Internet. The Governor’s Budget recommends investing $1.5 million in the installation of additional hardware and software that would allow network engineers to enhance the network and its security controls. The proposed appropriation would implement a recommendation by the New Jersey Commission on Capital Budgeting and Planning.

| General Fund, Capital Construction: Office of Information Technology—Availability and Recovery Site (OARS) | $6,500 | $0 | ($6,500) | (100.0%) | D-460 |

Despite the recommended elimination of the line item appropriation for the Office of Information Technology Availability and Recovery Site (OARS) for FY 2008, OARS would still receive $4 million of the $17.1 million intended to be made available for Statewide Fire, Life Safety and Renovation Projects from non-State funding sources in FY 2008 (see page D-485). The New Jersey Commission on Capital Budgeting and Planning has recommended a $5 million appropriation for OARS in FY 2008.

OARS is a Statewide disaster recovery facility designed to keep the State’s information technology environments operating in case of a disaster at the primary location hosting OIT’s processing services and data and telecommunications functions. Begun in 2003, OARS is expected to store critical data by the end of FY 2007. The recommended $4 million FY 2008 allocation represents the outlay for copying applications for the individual programs involved and for the accommodation of growth in agency data needs.

| General Fund, Capital Construction: Network Infrastructure | $416 | $0 | ($416) | (100.0%) | D-460 |

The decline in this budget line does not represent a proposed spending reduction on the activities funded through this account in FY 2007 but merely a transfer of these activities in FY 2008 to the new Enterprise Upgrade—Garden State Network and Data Storage and Infrastructure accounts (see above). In FY 2007, the $416,000 appropriation supported power
Significant Changes/New Programs ($000) (Cont’d)

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Adj. Approp. FY 2007</th>
<th>Recomm. FY 2008</th>
<th>Dollar Change</th>
<th>Percent Change</th>
<th>Budget Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Funds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office of Information Technology</td>
<td>$900</td>
<td>$0</td>
<td>($900)</td>
<td>(100.0%)</td>
<td>D-461</td>
</tr>
</tbody>
</table>

These federal funds supported the taking of aerial images in FY 2007 within the scope of the New Jersey Partnership for The National Map. This activity takes place every five years. The United States Geological Survey in the United States Department of the Interior leads The National Map project in conjunction with state and local government partners. The project's objective is to provide the nation with current and accurate digital geographical data and topographic maps.

DIVISION OF PURCHASE AND PROPERTY

Revolving Fund, Distribution Center:
State Purchase Fund $42,457 $45,294 $2,837 6.7% G-8

The State Purchase Fund finances the commodities purchases of the State Distribution and Support Services Center on behalf of its client entities. In addition to a rise in projected FY 2008 State agency purchases, the recommended increase reflects a policy change that would have the center return to its former delivery system under which it received and delivered to its client entities refrigerated and non-refrigerated commodities.

The Division of Purchase and Property runs the Ewing-based center, which provides State agencies, counties, municipalities, and school districts with goods acquired through bulk purchasing. Operating as a revolving fund, the self-supporting center bills its clients for the expenses it incurs in providing purchasing services to them.

Revolving Fund, Distribution Center:
Salaries and Wages $4,014 $4,350 $336 8.4% G-8

Two components comprise the recommended increase in State Distribution and Support Services Center salaries and wages. Contractual salary increases contribute $77,000 to the recommended expenditure growth, while the expansion of the center's commodities delivery system has created the need for additional full-time positions whose salaries and wages contribute the other $259,000 to the recommended expenditure growth.
### Significant Changes/New Programs ($000) (Cont’d)

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Adj. Approp. FY 2007</th>
<th>Recomm. FY 2008</th>
<th>Dollar Change</th>
<th>Percent Change</th>
<th>Budget Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revolving Fund, Distribution Center: Additions, Improvements and Equipment</td>
<td>$422</td>
<td>$25</td>
<td>($397)</td>
<td>(94.1%)</td>
<td>G-8</td>
</tr>
</tbody>
</table>

In FY 2007, this account supported the acquisition of two tractor trailers by the State Distribution and Support Services Center. The center plans no significant equipment purchases for FY 2008, thus explaining the recommended appropriation decrease in this account. The center’s fleet has an average age of 12 years and an average mileage of 300,000.

### STATE SUBSIDIES AND FINANCIAL AID

<table>
<thead>
<tr>
<th>PTRF, Grants-in-Aid: Homestead Property Tax Credits/Rebates for Homeowners</th>
<th>$931,288</th>
<th>$2,000,000</th>
<th>$1,068,712</th>
<th>114.8%</th>
<th>D-463</th>
</tr>
</thead>
<tbody>
<tr>
<td>PTRF, Grants-in-Aid: Homestead Property Tax Rebates for Tenants</td>
<td>$126,000</td>
<td>$251,000</td>
<td>$125,000</td>
<td>99.2%</td>
<td>D-463</td>
</tr>
</tbody>
</table>

**TOTAL** $1,057,288 $2,251,000 $1,193,712 112.9%

The recommended $1.19 billion increase for the New Jersey Homestead Property Tax Credit program (C.54:4-8.57 et seq.) reflects the program’s recent statutory changes and the discontinuation of a FY 2007 language provision restricting statutory program benefits. Table 1 on page 71 displays the statutory amounts for FY 2007, the actual amounts received in FY 2007 pursuant to budget language, the statutory benefit levels for FY 2008, and the amounts that would be allocated for FY 2008 according to the Governor’s recommendation. In FY 2008, an estimated 1.84 million homeowners and 796,000 tenants will receive benefits under the program.

P.L.2007, c.62 redesigned the benefit structure of the New Jersey Homestead Property Tax Credit Act. Homeowners with an annual gross income of no more than $250,000 now receive maximum credit amounts ranging from $1,000 up to $2,000. The law also doubled the FY 2008 appropriation for tenants over FY 2007 but did not alter the benefit structure for these recipients. Senior, disabled, and blind tenants with an annual gross income of up to $100,000 would continue to receive statutory rebate amounts ranging from $160 to $860 (including a 3.9 percent inflation adjustment). A language provision in the Governor’s Fiscal Year 2008 Budget would set the FY 2008 maximum benefits for non-senior, non-disabled, and non-blind tenants.
significant changes/new programs ($000) (cont’d)

with annual gross incomes of up to $100,000 at between $80 and $350, which may exceed
the statutory $160 benefit.

A language provision in the Fiscal Year 2007 Appropriations Act suspended the cost-of-living
adjustment for benefit amounts in that year. In addition, it restricted maximum amounts for
non-senior, non-disabled, non-blind recipients. Whereas statutory maximums would have
ranged from $520 to $830 for such homeowners with annual incomes of up to $200,000,
actual payments were capped at maximum amounts ranging from $200 to $350. Such tenants
with annual incomes of no more than $100,000 received $75 instead of the statutory $160.

PTRF, Grants-in-Aid:
Senior and Disabled
Citizens’ Property Tax
Freeze

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Adj. Approp. FY 2007</th>
<th>Recomm. FY 2008</th>
<th>Dollar Change</th>
<th>Percent Change</th>
<th>Budget Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>PTRF, Grants-in-Aid:</td>
<td>$126,500</td>
<td>$153,000</td>
<td>$26,500</td>
<td>20.9%</td>
<td>D-463</td>
</tr>
<tr>
<td>Senior and Disabled</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Citizens’ Property Tax Freeze</td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

Rising property tax liabilities and increasing program participation drive the expenditure
growth of the Senior and Disabled Citizens’ Property Tax Freeze program, or Homestead
Property Tax Reimbursement program (C.54:4-8.67 et seq.). The Executive expects 164,000
program participants in FY 2008, about 1,000 more than in FY 2007. At the same time, the
average benefit is projected to grow from $776 to $933.

The program reimburses qualified homeowners for the difference between the amount of
property taxes they paid on their principal residence in tax year 2006 and the amount they had
paid in their base year. Qualified homeowners in FY 2008 must be at least 65 years of age
or disabled or both. In addition, they must have a tax year 2006 income no greater than $43,693
if single, or $53,576 if married, and a tax year 2007 income of no greater than $45,135 if
single, or $55,344 if married. Moreover, they must have paid property taxes directly, or
indirectly by means of rental payments, on any homestead or rental unit used as a principal
residence in New Jersey for at least ten consecutive years, the last three of which must have
been as owners of the homesteads for which they seek the reimbursement.

General Fund,
State Aid:
Solid Waste
Management –
County
Environmental
Investment Debt

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Adj. Approp. FY 2007</th>
<th>Recomm. FY 2008</th>
<th>Dollar Change</th>
<th>Percent Change</th>
<th>Budget Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Aid</td>
<td>$40,000</td>
<td>$35,000</td>
<td>($5,000)</td>
<td>(12.5%)</td>
<td>D-463</td>
</tr>
</tbody>
</table>

Declining debt service costs account for the $5 million decrease in this budget line. In
response to an OLS Discussion Point in the Fiscal Year 2007 Department of the Treasury
Budget Analysis, the Treasury indicated that it expected aid disbursements from this account to
**Department of the Treasury**  
**FY 2007-2008**

### Significant Changes/New Programs ($000) (Cont’d)

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Adj. Approp. FY 2007</th>
<th>Recomm. FY 2008</th>
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<th>Budget Page</th>
</tr>
</thead>
</table>

be $38 million in FY 2008. As of May 1, 2007, $39.1 million has been expended or committed from this account in FY 2007 and it holds $14.9 million in unexpended balances.

The Solid Waste Management – County Environmental Investment Debt Service Aid program assists counties and county utility authorities in meeting debt service obligations for solid waste disposal investments effectuated up to 1997 if the debt is at risk of default without State assistance. A language provision in the annual appropriations act provides the program’s legal authority (page D-465).

**General Fund,**  
**State Aid:**  
Cherry Hill Township  
– Library Debt  
Service  
$500  
$0  
($500)  
(100.0%)  
D-463

The Legislature added $1 million to the Fiscal Year 2007 Appropriations Act to contribute to Cherry Hill Township’s required debt service payments on the new Cherry Hill Public Library, which opened on December 21, 2004. The Governor subsequently reduced this amount to $500,000 by means of a line-item veto. The Governor’s Fiscal Year 2008 Budget does not recommend renewing this appropriation.

**General Fund,**  
**State Aid:**  
West Deptford  
Township – Diesel  
Fired Electric Generator  
$200  
$0  
($200)  
(100.0%)  
D-463

**Logan Township – Sidewalk Improvements**  
$110  
$0  
($110)  
(100.0%)  
D-463

**Paulsboro Borough – Property Acquisition and Demolition Costs**  
$50  
$0  
($50)  
(100.0%)  
D-464

**TOTAL**  
$360  
$0  
($360)  
(100.0%)  

The Legislature added $360,000 to the Fiscal Year 2007 Appropriations Act for the three above purposes. The Governor’s Fiscal Year 2008 Budget does not recommend renewing these appropriations.
Significant Changes/New Programs ($000) (Cont'd)

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Adj. Approp. FY 2007</th>
<th>Recomm. FY 2008</th>
<th>Dollar Change</th>
<th>Percent Change</th>
<th>Budget Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund, State Aid: State Contribution to Consolidated Police and Firemen's Pension Fund</td>
<td>$1,784</td>
<td>$523</td>
<td>($1,261)</td>
<td>(70.7%)</td>
<td>D-464</td>
</tr>
</tbody>
</table>

Declining pension obligations and the increased value of the fund's assets explain the proposed funding reduction for the Consolidated Police and Firemen's Pension Fund (CPFPF). Nonetheless, pursuant to the actuary's determination, a State appropriation is still required as the value of fund assets does not fully support the CPFPF's accrued liability.

The CPFPF is a closed system without contributing members that provides pension coverage to municipal police officers and firemen who were appointed prior to July 1, 1944. Participating municipalities pay two-thirds of the fund's liabilities, while the State covers the remaining third. As of June 30, 2006, the fund had 707 beneficiaries who had received $13.5 million in total pensions in FY 2006 and its total assets were $18.6 million, according to the New Jersey Division of Pensions and Benefits' Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006. A year prior, the fund had 831 beneficiaries who received $15 million in total pensions, and its total assets were $18.1 million.

| PTRF, State Aid: Police and Firemen's Retirement System – Post Retirement Medical | $22,155 | $23,521 | $1,366 | 6.2% | D-464 |

The recommended FY 2008 amount would cover the State's obligation to pay 80 percent of the health care premiums for Police and Firemen's Retirement System (PFRS) members who retired on disability or with at least 25 years of creditable service (C.52:14-17.32i). The increase in the requested appropriation is largely due to premium rate increases for retirees and an increase in the number of retirees (projected at 1,355 additional pensioners for the entire PFRS).

PFRS provides pension coverage to all full-time county, municipal, and State police officers and firefighters (but not to State Police officers who are covered by the State Police Retirement System). The system is projected to have about 32,900 pensioners in FY 2008. Local employers and the State pay employer contributions. State PFRS payments spread over three accounts: (1) Direct State Services under Interdepartmental Accounts (pages D-489 and D-490), (2) Grants-in-Aid for State colleges' and universities' campus police, also under Interdepartmental Accounts (page D-491), and (3) State Aid on behalf of local governmental entities in the Department of the Treasury (page D-464).
Significant Changes/New Programs ($000) (Cont’d)

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Adj. Approp. FY 2007</th>
<th>Recomm. FY 2008</th>
<th>Dollar Change</th>
<th>Percent Change</th>
<th>Budget Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>PTRF, State Aid: Debt Service on Pension Obligation Bonds</td>
<td>$9,379</td>
<td>$10,206</td>
<td>$827</td>
<td>8.8%</td>
<td>D-464</td>
</tr>
</tbody>
</table>

The recommended increase reflects changing contractual debt service payments for the State Pension Funding Bonds in FY 2008. The budget line captures only that portion of total debt service payments that is allocated to the State as employer contribution on behalf of local governmental entities for the Police and Firemen’s Retirement System and the Consolidated Police and Firemen’s Pension Fund.

In 1997, the New Jersey Economic Development Authority issued the $2.8 billion appropriations-backed State Pension Funding Bonds, Series 1997A – 1997C pursuant to P.L.1997, c.114, the “Pension Bond Financing Act of 1997” ($375 million of which were refinanced in 2003 as State Pension Funding Variable Rate Refunding Bonds, Series 2003). Its proceeds were intended to finance $2.8 billion of the State’s $3.2 billion unfunded retirement systems liability in 1997. According to the 2006 State of New Jersey Debt Report, the State will have $2.65 billion in outstanding debt service payments at the end of FY 2007 through the bonds’ maturity in 2029. In FY 2008, the Governor recommends $195.2 million in total pension bond debt service payments, which represents an increase of $15.8 million, or 8.8 percent, over the $179.4 million FY 2007 appropriation. The outlay would be allocated as follows: (1) $103.5 million in the Department of Education (page D-116), (2) $81.4 million in Interdepartmental Accounts (pages D-490 and D-491), and (3) $10.3 million in the Department of the Treasury (pages D-429 and D-464).

MANAGEMENT AND ADMINISTRATION

General Fund, Debt Service

|                | $363,121 | $383,608 | $20,487 | 5.6% | D-468 |

Numerous changes in debt service payments on Department of the Treasury general obligation bonds in FY 2008 aggregate to the recommended $20.5 million net increase. Seven decreases lower debt service payments by a cumulative $6.3 million and three increases add $26.8 million to the total. Of the increase, refunding bonds account for $10.74 million and interest payments on yet to be determined future bond sales for $16.05 million. The Governor envisions roughly $200 million in new bond issuance in FY 2008 pursuant to authorized but not yet issued bonding authority.

Overall, on June 30, 2006, the State had $3.1 billion in outstanding long-term general obligation debt and $742 million in unissued but authorized bonding authority. Under the terms of the bond covenants, the State must make $440.4 million in general obligation bond debt service payments in FY 2008, of which $383.6 million are funded in the Department of the Treasury budget and $56.8 million in the Department of Environmental Protection budget.
Language Provisions

**2007 Appropriations Handbook**  
*p. B-187*

Notwithstanding the provisions of any law or regulation to the contrary, the investment earnings derived from the funds deposited in the Clean Energy Fund and Retail Margin Fund shall accrue to the funds and are available to pay the costs of the various programs of the New Jersey Board of Public Utilities Clean Energy Program and Retail Margin Program.

No comparable language.

**2008 Budget Recommendations**  
*p. D-439*

Notwithstanding the provisions of any law or regulation to the contrary, the investment earnings derived from the funds deposited in the Clean Energy Fund, Universal Services Trust Fund and Retail Margin Fund shall accrue to the funds and are available to pay the costs of the various programs of the New Jersey Board of Public Utilities Clean Energy Program, Universal Services Trust Fund and Retail Margin Program.

There is appropriated to the Universal Services Trust Fund such sums that are equal to the amount of interest earned on monies in the Universal Services Trust Fund during fiscal year 2007.

**Explanation**

The recommended language provisions would allow the Board of Public Utilities (BPU) to use interest and investment earnings accruing to the Universal Service Fund (USF) to pay for the costs of programs financed through the fund. Existing language to this effect covers only the Clean Energy Fund and the Retail Margin Fund.

Via the societal benefits charge included in their electric and gas bills, New Jersey ratepayers fund the Clean Energy Fund (page H-6), the Retail Margin Fund (page H-28), and the USF (page H-34), which are all special revenue funds created under the “Electric Discount and Energy Competition Act”, P.L.1999, c.23. The USF finances various programs assisting low-income residents in paying their electric and natural gas service bills. While the BPU carries the financial responsibility for the programs, the Department of Health and Senior Services administers them, and the electric and natural gas utilities credit the benefits to customer accounts. The Governor’s Fiscal Year 2008 Budget anticipates $240.9 million in USF resources for FY 2008. Of this amount, the Governor proposes $156.4 million in direct fund expenditures as well as a transfer of $76.8 million to other funds, of which $72.6 million would finance the "Lifeline Credit Program" (C.48:2-29.15 et seq.) and the "Tenants' Lifeline Assistance Program" (C.48:2-29.31 et seq.), under which 316,650 low-income households would receive up to $225 in gas and electric utility credits in FY 2008.
Language Provisions (Cont’d)

2007 Appropriations Handbook

p. B-187

Notwithstanding the provisions of paragraph (3) of subsection a. of section 12 of the "Electric Discount and Energy Competition Act," P.L.1999, c.23 (C.48:3-60) and any other laws to the contrary, receipts from the New Jersey Clean Energy Trust Fund are appropriated for the actual administrative salary and operating costs, not to exceed $820,000, for the Office of Clean Energy as requested by the President of the Board of Public Utilities and approved by the Director of the Division of Budget and Accounting.

2008 Budget Recommendations

p. D-439

Notwithstanding the provisions of paragraph (3) of subsection a. of section 12 of the "Electric Discount and Energy Competition Act," P.L.1999, c.23 (C.48:3-60) and any other laws to the contrary, receipts from the New Jersey Clean Energy Trust Fund are appropriated for the actual administrative salary and operating costs, not to exceed $1,300,000, for the Office of Clean Energy as requested by the President of the Board of Public Utilities and approved by the Director of the Division of Budget and Accounting.

Explanation

The proposed language provision increases FY 2008 funding for administrative expenses of New Jersey’s Clean Energy Program in the Board of Public Utilities (BPU) by $480,000, or 58.5 percent. The additional resources would fund six new positions to strengthen program oversight and contract monitoring at a time when contractors take over the program’s administration.

The BPU oversees New Jersey’s Clean Energy Program, created as part of P.L.1999, c.23 (C.48:3-49 et seq.), through which the State seeks to promote increased energy efficiency and the use of clean, renewable sources of energy including solar, wind, geothermal, and sustainable biomass. The program's financial incentives support residents' purchases of high efficiency heating and cooling systems, commercial energy efficiency projects, installations of solar electric or other renewable energy systems, and the planting of trees, among other initiatives. New Jersey ratepayers fund the off-budget program via the societal benefits charge included in their electric and gas bills. The Governor's Fiscal Year 2008 Budget anticipates $313.4 million in Clean Energy Fund outlays (page H-6).

2007 Appropriations Handbook

p. D-444

No comparable language.

2008 Budget Recommendations

p. D-444

The unexpended balance at the end of the preceding fiscal year in the Office of the Medicaid Inspector General account is appropriated, subject to the approval of the Director of the Division of Budget and
Language Provisions (Cont'd)

2007 Appropriations Handbook

No comparable language.

2008 Budget Recommendations

p. D-444

Accounting.

Notwithstanding the provisions of any law or regulation to the contrary, all financial recoveries obtained through the efforts of any entity authorized to undertake the prevention and detection of Medicaid fraud, waste and abuse, are appropriated to General Medical Services in the Division of Medical Assistance and Health Services in the Department of Human Services.

Explanation

The “Medicaid Program Integrity and Protection Act”, P.L.2007, c.58, created the Medicaid Inspector General as an office within the Office of the Inspector General to prevent, detect, investigate, and reduce fraud, waste, and abuse in the State’s Medicaid program. The act included a $3 million FY 2007 supplemental appropriation, although the office is unlikely to be operational before FY 2008. Consequently, the first proposed language provision would carry the office’s unexpended $3 million supplemental appropriation forward into the next fiscal year in lieu of a new appropriation.

The second proposed language provision would transfer the entire State share of the monies recovered by the Medicaid Inspector General to the General Medical Services account in the Division of Medical Assistance and Health Services in the Department of Human Services. This language provision would supersede a requirement in the “Medicaid Program Integrity and Protection Act” that 25 percent of such sums must be deposited into the “Medicaid Fraud Control Fund” in the Department of the Treasury to pay for the investigation and prosecution of Medicaid fraud claims.

2007 Appropriations Handbook

No comparable language.

2008 Budget Recommendations

pp. D-450 and F-7

There is hereby appropriated from the Dedicated Cigarette Tax Revenue Fund established pursuant to P.L. 2004, c.68 (C.34:1B-21.16 et seq.) such sums as are required under the contract between the Treasurer and the New Jersey Economic
Language Provisions (Cont'd)

2007 Appropriations Handbook

No comparable language.

2008 Budget Recommendations

pp. D-450 and F-7

Development Authority entered into pursuant to C.34:1B-21.21.

Notwithstanding the provisions of P.L. 2004, c.68 (N.J.S. 34:1B-21.16 et seq.) or any law or regulation to the contrary, funds remaining in the Dedicated Cigarette Tax Revenue Fund at the end of the current fiscal year are appropriated from such fund for transfer to the General Fund as State revenue.

Explanation

The first proposed language provision (p. D-450) would appropriate FY 2008 debt service payments on the "$1,461,030,000 New Jersey Economic Development Authority Cigarette Tax Revenue Bonds, Series 2004", which are secured by 78.598 percent of the revenue stream generated by the 2004 cigarette tax increase of $0.65 per pack of cigarettes. The "Cigarette Tax Securitization Act of 2004", P.L.2004, c.68 (C.34:1B-21.16 et seq.), authorized the bond issuance, which, after subtracting bond issuance expenses and the cost of credit enhancements, yielded $1.19 billion in support of the FY 2005 State budget. In FY 2007, the State made its first debt service payment of $152.8 million on the bonds. The estimated FY 2008 payment would be $150.2 million.

The second proposed language provision (p. F-7) would transfer to the State General Fund the $43.2 million in anticipated proceeds from the remaining 21.402 percent of FY 2008 collections from the 2004 cigarette tax increase of $0.65 per pack of cigarettes. The "Cigarette Tax Securitization Act of 2004" initially allowed the issuance of bonds backed by this revenue stream, but the New Jersey Supreme Court constrained the use of these funds in Lance v. McGreevey, 180 N.J. 590 (2004). Absent further securitization, these cigarette tax revenues are available to support general State purposes.

2007 Appropriations Handbook

No comparable language.

2008 Budget Recommendations

p. D-450

In addition to the amounts hereinabove, there are appropriated such additional sums as may be necessary for the cost of a State Lottery business plan study, subject to the
Language Provisions (Cont'd)

2007 Appropriations Handbook 2008 Budget Recommendations

p. D-450

approval of the Director of the Division of Budget and Accounting.

Explanation

This proposed language provision recommends an unspecified FY 2008 appropriation for the cost of conducting a “State Lottery business plan study”.

The Governor’s Fiscal Year 2008 Budget projects net lottery sales of $2.4 billion and net lottery proceeds of $848 million. The Constitution mandates that all lottery net proceeds fund State Aid for education and institutions.

2007 Appropriations Handbook 2008 Budget Recommendations

p. D-450

No comparable language.

The unexpended balance at the end of the preceding fiscal year in the New Jersey Fair and Clean Elections Fund account is appropriated, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

“The 2007 New Jersey Fair and Clean Elections Pilot Project Act”, P.L.2007, c.60, authorized a $6.75 million supplemental appropriation to the newly-created New Jersey Fair and Clean Elections Fund (which also receives funding from other sources). Amounts in the fund finance the election campaigns of candidates certified for public funding in three legislative districts during the 2007 general election. This language provision carries the unexpended fund balance at the end of FY 2007 forward into the next fiscal year.
Language Provisions (Cont'd)

2007 Appropriations Handbook

p. B-191

Notwithstanding any other law to the contrary, $5,000,000 of the amounts credited to the New Jersey Domestic Security account on or after July 1, 2006, is available to the General Fund as State revenue.

2008 Budget Recommendations

No comparable language.

Explanation

The FY 2007 language provision allocated $5.0 million of the $23.5 million in anticipated FY 2007 New Jersey Domestic Security Account receipts for general State purposes, thereby overriding the statutory mandate that proceeds from the first $2 of the $5 per day surcharge on vehicle rentals be exclusively used to support medical emergency disaster preparedness for bioterrorism, security coverage at nuclear facilities, State Police salaries related to Statewide security services, and counter-terrorism programs. Discontinuing this language provision would result in the entire $23.5 million in anticipated FY 2008 Domestic Security Account revenues being used for their statutory purposes.

P.L.2006, c.42 (C.App.A:9-78) requires the Director of the Division of Taxation to collect a $5 per day surcharge on vehicle rentals and to place 40 percent of the proceeds in the New Jersey Domestic Security Account (the remaining 60 percent are available for general State purposes). Domestic Security Account revenues are intended to exclusively support medical emergency disaster preparedness for bioterrorism, security coverage at nuclear facilities, State Police salaries related to Statewide security services, and counter-terrorism programs. Accordingly, the Governor's Budget recommends $23.4 million in related expenditures: a) a $11.2 million appropriation to the Department of Law and Public Safety for State Police salaries (page D-290); b) a $7.2 million appropriation to the Department of Law and Public Safety for the Office of Counter-Terrorism (page D-307); c) a $4.7 million appropriation to the Department of Health and Senior Services for its Medical Emergency Disaster Preparedness for Bioterrorism program (page D-168); and d) a $278,000 appropriation to the Department of Agriculture for its Agro-Terrorism program (page D-22). All of these amounts would be appropriated off-budget and unchanged from FY 2007, except for the sum for State Police salaries, which would decline from $13.9 million.

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2007 Appropriations Handbook

p. B-192

Notwithstanding any other law to the contrary, $27,000,000 of the amounts credited to the county portion of the New
Language Provisions (Cont'd)

2007 Appropriations Handbook

p. B-192

Jersey Public Records Preservation account
on or after July 1, 2006, is available to the
General Fund as State revenue.

2008 Budget Recommendations

Explanation

The FY 2007 language provision allocated for general State purposes $27.0 million of the
$28.0 million in anticipated FY 2007 New Jersey Public Records Preservation account receipts
for county and municipal use. In so doing, the language overrode the statutory mandate that
40 percent of the proceeds from a $5 increase of the fees county clerks and registers charge on
the recording of certain documents since 2003 shall be allocated for grants to counties and
municipalities for the management, storage and preservation of public records. The Governor's
Budget recommends that, consistent with statutory provisions, $25.7 million of $62.8 million
in anticipated FY 2008 New Jersey Public Records Preservation account receipts be used for
grants to counties and municipalities.

Section 38 of P.L.2003, c.117 increased each of the county recording fees charged by county
clerks and registers under C.22A:4-4.1 by $5. According to section 39 of P.L.2003, c.117
(C.22A:4-4.2), the ensuing proceeds are deposited in the New Jersey Public Records
Preservation account in the Department of the Treasury before being distributed to the
Department of State (60 percent), counties, and municipalities (a combined 40 percent) for the
management, storage, and preservation of public records.

2007 Appropriations Handbook

p. B-192

Notwithstanding the provisions of any law to
the contrary, the expenses of administration
for the various retirement systems and
employee benefit programs administered by
the Division of Pensions and Benefits and
the Division of Investments shall be charged
to the pension and health benefits funds
established by law to receive employer
contributions or payments or to make benefit
payments under the programs, as the case
may be. In addition to the amounts
hereinabove, there are appropriated such
sums as may be necessary for administrative

2008 Budget Recommendations

p. D-451

Notwithstanding the provisions of any law or
regulation to the contrary, the expenses of
administration for the various retirement
systems and employee benefit programs
administered by the Division of Pensions
and Benefits and the Division of Investments
shall be charged to the pension and health
benefits funds established by law to receive
employer contributions or payments or to
make benefit payments under the programs,
as the case may be. In addition to the
amounts hereinabove, there are appropriated
such sums as may be necessary for
Language Provisions (Cont'd)

2007 Appropriations Handbook  
*p. B-192*

costs, which shall include bank service charges, investment services, and other such costs as are related to the management of the pension and health benefit programs, as the Director of the Division of Budget and Accounting shall determine. In addition, revenue resulting from such charges to the various pensions and health benefit funds, payable on a schedule to be determined by the Director of the Division of Budget and Accounting, shall be credited to the General Fund as anticipated revenue.

2008 Budget Recommendations  
*p. D-451*

administrative costs, which shall include bank service charges, investment services, and other such costs as are related to the management of the pension and health benefit programs, as the Director of the Division of Budget and Accounting shall determine.

Explanation

The Governor’s Budget seeks to shift the $8.7 million Division of Investment appropriation off-budget in FY 2008. Through FY 2007, the division’s expenses have been included within on-budget appropriations, offset by revenue transferred to the General Fund from several investment funds, including the State’s pension and benefits funds. In FY 2008, however, these expenses would be charged directly to the investment funds. This change has no net effect on the budget balance because expenditures and revenues of equal amount are being removed from the budget.

2007 Appropriations Handbook  

No comparable language.

2008 Budget Recommendations  
*p. D-461*

As a condition to the appropriations made in this act, specifically with regard to the allocation of employees performing information technology infrastructure functions and the establishment of deputy chief technology officers and related staff as authorized in pending legislation, the Office of Information Technology shall identify as soon as practicable following enactment of this act the specific Direct State Services appropriations and positions that should be transferred between various departments and the Office of Information Technology,
Language Provisions (Cont'd)

2007 Appropriations Handbook

2008 Budget Recommendations

p. D-461

subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

This proposed language provision instructs the Office of Information Technology (OIT) to identify the specific Direct State Services appropriations for information technology and related personnel to be moved from the various State departments and agencies to OIT.

OIT provides information technology services to State agencies and has a recommended FY 2008 budget of $146.5 million for 971 employees. P.L.2007, c.56 reorganizes the office so as to institute it as State government’s central information technology management and oversight body. An Information Technology Governing Board would head the reorganized OIT and determine strategic direction, standards, and funding priorities. A Chief Technology Officer would run OIT’s day-to-day operations and coordinate information technology operations across the executive branch. Six deputy chief technology officers would have responsibilities for information technology management, planning and budgeting in six subject areas (Public Safety; Health and Social Services; Education, Cultural, and Intellectual Services; Environmental and Transportation Services; Business and Community Services; and Administrative Services).

2007 Appropriations Handbook

p. B-194

The Director of the Division of Budget and Accounting is empowered to transfer or credit to any central data processing center any appropriation made to any department which had been appropriated or allocated to such department for its share of costs of such data processing center including the replacement of data processing equipment and the purchase of additional data processing equipment.

No comparable language.

2008 Budget Recommendations

p. D-461

No comparable language.

In addition to the $62,821,000 attributable to OIT Other Resources, there are appropriated such sums as may be received or receivable from any State agency, instrumentality or public authority for Office
Language Provisions (Cont'd)

2007 Appropriations Handbook
p. B-194

2008 Budget Recommendations
p. D-461

of Information Technology services furnished thereto and attributable to a change in or the addition of an OIT service level agreement, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The proposed elimination and addition of the language provisions stem from the decision to end the Office of Information Technology (OIT) revolving fund in FY 2008 and to instead provide OIT a direct General Fund appropriation. Since its inception in 1984, OIT’s operations have been funded through a revolving fund with OIT billing State user agencies for information technology services. In FY 2008, OIT would instead receive a State appropriation (offset by corresponding reductions in the departments’ information technology budgets) and continue to bill State agencies for services provided to programs financed by federal or dedicated funds.

The language provision proposed for elimination authorized the departments’ payment of OIT bills from General Fund resources. Since these amounts would now be appropriated directly to OIT, the language is no longer appropriate. The language provision proposed for addition would appropriate to OIT federal and dedicated funds transferred from State agencies for billable OIT services in excess of the $62.8 million included in the Governor’s Fiscal Year 2008 Budget if OIT’s billable services exceeded that sum.

OIT has a recommended FY 2008 budget of $146.5 million. Excluding the proposed $28.7 million for the Office of Emergency Telecommunication Services, OIT’s recommended FY 2008 appropriation is $117.8 million. Of this amount, transfers of federal and dedicated funds from State agencies for billable OIT services account for $62.8 million, or 53.3 percent, and General Fund appropriations for the remaining $55.0 million, or 46.7 percent.

2007 Appropriations Handbook
p. B-211

Grant awards and expenditures supported by the appropriation for Enhanced 911 Grants shall be determined in accordance with the recommendations of an efficiency study prepared by the Rutgers University-Heldrich School as well as grant criteria to be jointly developed by the 911 Commission and the

2008 Budget Recommendations
p. D-461

Grant awards and expenditures supported by the appropriation for Enhanced 911 Grants, including 911 operating assistance or equipment grants, shall be determined in accordance with the recommendations of an efficiency study prepared by the Rutgers University-Heldrich School as well as grant
Language Provisions (Cont'd)

2007 Appropriations Handbook  
Department of Treasury, the purpose of which will be to create incentives for the regional consolidation of 911 call services and public safety answering points. Of the amount hereinabove appropriated for the Enhanced 911 Grants, an amount may be transferred to the Office of Information Technology Enhanced 911 Grants account to cover the cost of this program, subject to the approval of the Director of the Division of Budget and Accounting.

2008 Budget Recommendations  
criteria to be jointly developed by the 911 Commission and the Department of Treasury, the purpose of which will be to create incentives for the regional consolidation of 911 call services and public safety answering points. Those grant criteria, the specific requirements of which will be defined by the Office of Emergency Telecommunication Services shall include a requirement that applicants provide information to the Office of Emergency Telecommunication Services on existing budget and staffing resources, including salary and non-salary line items and position titles, as well as equipment and operating performance data related to the existing public safety answering point operations, public safety dispatch and radio communications systems and services.

Explanation

The recommended language provision would require the Office of Emergency Telecommunications Services (OETS) in the Office of Information Technology to award Enhanced 911 Grants to Public Safety Answering Points (PSAP) pursuant to grant criteria favoring the regional consolidation of PSAPs. The language provision would thus reinforce P.L.2007, c.56, which mandates that the State Plan for the Enhanced 9-1-1 System advance the consolidation of PSAPs and that the OETS allocate PSAP monies contingent on the merging and sharing of PSAP functions by municipalities, counties, and the State Police. To facilitate the collection of financial and performance data needed for the consolidation, the modified language provision would require that grant applicants submit information on their budgets, staffing levels, and call volume.

PSAPs are responsible for handling 9-1-1 calls for emergency assistance from police, fire, and ambulance services. The Enhanced 911 Grants assist PSAPs in purchasing, upgrading, maintaining and operating the equipment needed to run the Statewide Enhanced 9-1-1 System. The Emergency Preparedness and 9-1-1 System Assessment, created by P.L.2004, c.48 (C.52:17C-17 et seq.), funds the grant program, among other initiatives. Customers pay the $0.9 assessment in each billing cycle for their cell or landline phones. In FY 2008, the Governor recommends disbursing an unchanged $14.9 million for Enhanced 911 Grants.
The amounts hereinabove appropriated for the Homestead Property Tax Rebates for Homeowners program and the Homestead Property Tax Rebates for Tenants program shall be available to pay homestead rebates pursuant to the provisions of section 3 of P.L. 1990, c.61 (C.54:4-8.59) and section 4 of P.L. 1990, c.61 (C.54:4-8.60), respectively; as amended by P.L. 2004, c.40, for residents who are 65 years of age or older at the close of the tax year, or who are allowed to claim a personal deduction as a blind or disabled taxpayer pursuant to subsection b. of N.J.S.54A:3-1, except that there shall be no cost of living adjustment pursuant to subsection h. of section 3 and subsection g. of section 4. Notwithstanding the provisions of P.L. 1990, c.61 (C.54:4-8.59 et seq.), as amended by P.L. 2004, c.40, to the contrary, the amounts hereinabove appropriated for the Homestead Property Tax Rebates for Homeowners program and the Homestead Property Tax Rebates for Tenants program shall only be available to pay homestead rebates pursuant to the provisions of that law but not in excess of the following maximum amounts for tax year 2005: (a) $350 for residents who are not 65 years of age or older at the close of the tax year, and who are not allowed to claim a personal deduction as a blind or disabled taxpayer pursuant to subsection b. of N.J.S.54A:3-1, with gross income of $70,000 or less for the taxable year for property taxes paid; (b) $250 for residents who are not 65 years of age or older at the close of the tax year, and who are not allowed to claim a personal deduction as a blind or disabled taxpayer pursuant to subsection b. of N.J.S.54A:3-1, with gross income in excess of $70,000 but not in excess of $125,000 for the taxable year for property taxes paid; (c) $200 for residents who are not 65 years of age or older at the close of the tax year, and who are not allowed to claim a personal deduction as a blind or disabled taxpayer pursuant to subsection b. of N.J.S.54A:3-1, with gross income in excess of $125,000 but not in excess of $250,000 for the taxable year for property taxes paid; (d) $125 for residents who are not 65 years of age or older at the close of the tax year, and who are not allowed to claim a personal deduction as a blind or disabled taxpayer pursuant to subsection b. of N.J.S.54A:3-1, with gross income in excess of $250,000 but not in excess of $500,000 for the taxable year for property taxes paid; (e) $100 for residents who are not 65 years of age or older at the close of the tax year, and who are not allowed to claim a personal deduction as a blind or disabled taxpayer pursuant to subsection b. of N.J.S.54A:3-1, with gross income in excess of $500,000 but not in excess of $750,000 for the taxable year for property taxes paid; (f) $75 for residents who are not 65 years of age or older at the close of the tax year, and who are not allowed to claim a personal deduction as a blind or disabled taxpayer pursuant to subsection b. of N.J.S.54A:3-1, with gross income in excess of $750,000 but not in excess of $1,000,000 for the taxable year for property taxes paid; (g) $50 for residents who are not 65 years of age or older at the close of the tax year, and who are not allowed to claim a personal deduction as a blind or disabled taxpayer pursuant to subsection b. of N.J.S.54A:3-1, with gross income in excess of $1,000,000 but not in excess of $1,500,000 for the taxable year for property taxes paid; (h) $25 for residents who are not 65 years of age or older at the close of the tax year, and who are not allowed to claim a personal deduction as a blind or disabled taxpayer pursuant to subsection b. of N.J.S.54A:3-1, with gross income in excess of $1,500,000 but not in excess of $2,000,000 for the taxable year for property taxes paid; (i) $12.50 for residents who are not 65 years of age or older at the close of the tax year, and who are not allowed to claim a personal deduction as a blind or disabled taxpayer pursuant to subsection b. of N.J.S.54A:3-1, with gross income in excess of $2,000,000.
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deduction as a blind or disabled taxpayer pursuant to subsection b. of N.J.S.54A:3-1;
with gross income in excess of $125,000 but not in excess of $200,000 for the taxable
year for property taxes paid; (d) $75 for residents who are not 65 years of age or
older at the close of the tax year, and who are not allowed to claim a personal
deduction as a blind or disabled taxpayer pursuant to subsection b. of N.J.S.54A:3-1
for rent constituting property taxes paid for the tax year—2005. If the amounts
hereinabove appropriated are not sufficient, there are appropriated from the Property Tax
Relief Fund such additional sums as may be required for payment of such rebates, subject
to the approval of the Director of the Division of Budget and Accounting.

See preceding language provision.

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The amount hereinabove appropriated for the Homestead Property Tax Credits/Rebates
for Homeowners program shall be available to pay homestead rebates pursuant to the
provisions of section 3 of P.L. 1990, c.61 (C.54:4-8.59) as amended by P.L. 2004,
c.40, and by pending legislation. If the amount hereinabove appropriated for the
Homestead Property Tax Credits/Rebates for Homeowners program is not sufficient, there
is appropriated from the Property Tax Relief Fund such additional sums as may be
required for payment of such credits/rebates, subject to the approval of the Director of the
Division of Budget and Accounting.

Explanation

The recommended budget language revisions for the New Jersey Homestead Property Tax
Credit program (C.54:4-8.57 et seq.) reflect the program’s statutory changes pursuant to
P.L.2007, c.62 and the discontinuation of a FY 2007 language provision rescinding the
statutory cost-of-living adjustment to benefit amounts for senior, disabled, and blind
homeowners and tenants and reducing benefit amounts for other homeowners and tenants.
Table 1 on page 71 displays the statutory amounts for FY 2007, the actual amounts received in
FY 2007 pursuant to budget language, the statutory benefit levels for FY 2008, and the amounts
that would be allocated for FY 2008 according to the Governor’s recommendation.
Language Provisions (Cont'd)

The proposed FY 2008 language provision concerns non-senior, non-disabled, and non-blind tenants, as the Governor's Budget recommends that all homeowners and all senior, disabled, and blind tenants receive their statutory payments in FY 2008. Since P.L.2007, c.62 doubled the FY 2008 appropriation for tenants over FY 2007 without stipulating a new benefit structure, the proposed language provision would establish benefit amounts for FY 2008. The Governor’s Budget recommends that FY 2008 benefits for non-senior, non-disabled, and non-blind tenants with annual gross incomes of up to $100,000 range from $80 to $350, which for some tenants may or may not exceed the statutory $160.

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There is appropriated from the Energy Tax Receipts Property Tax Relief Fund the sum of $788,492,000 and an amount not to exceed $81,542,000 which is transferred from the Consolidated Municipal Property Tax Relief Aid (PTRF) account and an amount not to exceed $2,211,000 from the Special Municipal Aid Act account to the fund and shall be allocated to municipalities in accordance with the provisions of subsection b. of section 2 of P.L. 1997, c.167 (C.52:27D-439) except that any sums transferred from the Special Municipal Aid Act account shall be allocated to the City of Camden. Each municipality that receives an allocation from the amount so transferred from the Consolidated Municipal Property Tax Relief Aid program shall have its allocation from the Consolidated Municipal Property Tax Relief Aid program reduced by the same amount. Of the amount herein appropriated from the Energy Tax Receipts Property Tax Relief Fund, an amount equal to $25,000,000 shall be allocated to municipalities proportionately based on population, except that Newark and Jersey City shall each receive $390,000 of the $25,000,000 and Paterson shall receive $375,000 of the $25,000,000.

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There is appropriated from the Energy Tax Receipts Property Tax Relief Fund the sum of $788,492,000 and an amount not to exceed $124,752,000 which is transferred from the Consolidated Municipal Property Tax Relief Aid (PTRF) account and an amount not to exceed $6,985,000 from the Special Municipal Aid Act account to the fund and shall be allocated to municipalities in accordance with the provisions of subsection b. of section 2 of P.L. 1997, c.167 (C.52:27D-439) except that any sums transferred from the Special Municipal Aid Act account shall be allocated to a municipality in the Special Municipal Aid program. Each municipality that receives an allocation from the amount so transferred from the Consolidated Municipal Property Tax Relief Aid program shall have its allocation from the Consolidated Municipal Property Tax Relief Aid program reduced by the same amount. Of the amount herein appropriated from the Energy Tax Receipts Property Tax Relief Fund, an amount equal to $25,000,000 shall be allocated to municipalities proportionately based on population, except that Newark and Jersey City shall each receive $390,000 of the $25,000,000 and Paterson shall receive $375,000 of the $25,000,000.
Language Provisions (Cont’d)

Explanation

The State established the Energy Tax Receipts Property Tax Relief Fund (C.52:27D-439) in 1997 as an off-budget account through which it distributes receipts from the taxation of certain regulated utilities and telecommunications companies as aid to municipalities. Amending legislation enacted in 1999 instituted a $755 million funding requirement for FY 2002 and mandated that the amount be annually adjusted for inflation thereafter. Failure in a given year to appropriate monies in the prescribed amount would void taxpayers’ corporation business tax liabilities for that tax year.

In recent years, energy tax receipts allocated from the Energy Tax Receipts Property Tax Relief Fund (ETR Fund) have been inadequate to fund the statutory inflation adjustment. To fulfill the funding requirement, language provisions have transferred monies from the Consolidated Municipal Property Tax Relief (CMPTF) Aid account to the ETR Fund. For municipalities, the net effect of these reallocations has been zero, as increased ETR disbursements have fully corresponded to decreases in CMPTF Aid.

The Governor’s Fiscal Year 2008 Budget recommends level funding of municipal aid from the ETR Fund and a $124.8 million transfer of CMPTF Aid to the ETR Fund. However, some municipalities have insufficient CMPTF entitlements to fully fund the reallocation. The language thus identifies $7 million of the FY 2008 recommended funding for Special Municipal Aid as the additional source of municipal aid for reallocation to the ETR Fund. Overall, this transfer is not intended to alter the combined amount concerned municipalities would receive from the ETR Fund, CMPTF, and the Special Municipal Aid account.

Total recommended disbursements from the ETR Fund are thus $920.2 million, which is $48 million, or 5.5 percent, more than in FY 2007. Overall, the proposed FY 2008 budget increases direct aid to New Jersey’s 566 municipalities by $20 million, or 1 percent, to $1.94 billion.

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Pursuant to the provisions of P.L.1999, c.12 (C.54:1A:9-25.12 et seq.) deposits made to the “Drug Abuse Education Fund” and the unexpended balance at the end of the preceding fiscal year of such deposits are appropriated for collection or administration costs of the Department of the Treasury and for transfer to the Department of Education such sums as are necessary for Project DARE (Drug Abuse Resistance Education), subject

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Pursuant to the provisions of P.L.1999, c.12 (C.54:1A:9-25.12 et seq.) deposits made to the "Drug Abuse Education Fund" and the unexpended balance at the end of the preceding fiscal year of such deposits are appropriated for collection or administration costs of the Department of the Treasury and for transfer to the Department of Education such sums as are necessary for Project DARE (Drug Abuse Resistance Education) and the
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to the approval of the Director of the Division of Budget and Accounting.

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Steroid Use and Prevention Program, and to the Department of Human Services for substance abuse treatment and prevention programs, subject to the approval of the Director of the Division of Budget and Accounting.

Pursuant to the provisions of Executive Order #72 (Acting Governor Coeley), deposits made to the “Drug Abuse Education Fund” and the unexpended balance at the end of the preceding fiscal year of such deposits are appropriated for collection or administration costs of the Department of Treasury and for transfer to the Departments of Education and Health and Senior Services such sums as are necessary for the Steroid Use and Prevention program, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The modified FY 2008 language provision would cause no substantive change, as it combines two language provisions contained in the Fiscal Year 2007 Appropriations Act. The proposed language provision would allocate monies from the Drug Abuse Education Fund to Project DARE (Drug Abuse Resistance Education), the Steroid Use and Prevention Program, and other substance abuse treatment and prevention programs.

The Drug Abuse Education Fund, created pursuant to P.L.1999, c.12 (C.54A:9-25.12), derives its resources from taxpayer donations on gross income tax returns. Its proceeds are statutorily dedicated to the Department of Education for distribution to non-governmental entities providing Statewide drug abuse education programs. Executive Order #72 of 2005 and the proposed FY 2008 language provision extend the scope of permissible fund uses to anti-steroid programs. In FY 2008, the Governor expects $600,000 in additional fund receipts, which would supplement over $2.7 million in surplus balances.

Executive Order #72 of 2005 implemented a number of the recommendations contained in the December 2005 report by the Governor’s Task Force on Steroid Use and Prevention, including the creation of a program of random steroids testing of teams and individuals qualifying for championship games, the development of anti-steroid educational programs and materials, and the insertion of steroid education in school curricula.
Language Provisions (Cont'd)

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Notwithstanding any other law to the contrary, there is hereby appropriated to each local school district that participates in the Special Education Medicaid Initiative (SEMI) and/or the Medicaid Administrative Claiming (MAC) program from the federal revenue received from SEMI and/or MAC, such sums in an amount equivalent to negative claims adjustments resulting from a federal Office of Inspector General audit issued April 2003 (#A-02-02-01022), subject to the approval of the Director of the Division of Budget and Accounting.

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No comparable language.

Explanation

The existing language provision ensured that participating school districts received their full FY 2007 share of federal SEMI and MAC funds despite the reimbursement in that fiscal year of previous disallowed claims to the federal government. The State effectively paid the reimbursement as the language provision refunded to school districts out of the State’s share for SEMI and MAC any negative federal claim adjustment. The Office of the Inspector General in the United States Department of Health and Human Services had recommended in April 2003 that New Jersey refund to the federal government $1.2 million for improper SEMI and MAC claims for transportation services provided between July 1, 1998 and June 30, 2001. The language provision is unnecessary in FY 2008, since the State has fully reimbursed the federal government.

The Special Education Medicaid Initiative (SEMI) and Medicaid Administrative Claiming (MAC) are school-based federal Medicaid Title XIX reimbursement programs that allow participating school districts to recover a portion of the costs for certain Medicaid-covered services provided to Medicaid-eligible pupils. SEMI services include physical therapy, occupational therapy, speech therapy, psychological counseling, nursing services, and specialized transportation services. MAC, a subsection of the Early Periodic Screening and Diagnostic Treatment initiative, allows the State to claim federal Medicaid reimbursement for administrative activities performed by school personnel. The Department of the Treasury shares the administrative responsibility for operating SEMI and MAC with the Departments of Children and Families, Education, and Human Services. As of FY 2007, participating school districts receive 35 percent and the State 65 percent of federal payments. Before, school districts had received 15 percent and the State 85 percent.
Language Provisions (Cont’d)

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No comparable language.

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There are appropriated such sums as may be necessary for legal and engineering fees, financial advisors and other consultants and services associated with, as well as any other costs determined necessary in preparation for, the monetization, sale, or lease of public assets, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The Executive is currently studying the feasibility of selling or leasing certain State assets and the recommended language provision would appropriate the amounts necessary to pay for related consulting services. On November 15, 2006, UBS Investment Bank provided the State Treasurer with the State of New Jersey Asset Evaluation Program Phase 1 Report, which identified five assets as “having sound commercial viability ... and a meaningful potential value from pursuing public-private partnerships”: the Atlantic City Expressway, development rights at New Jersey Transit stations, the Garden State Parkway, the New Jersey Lottery, and the New Jersey Turnpike. UBS also pointed to six assets as potentially successful public-private partnerships: the Atlantic City International Airport, a fiber optic network, high occupancy toll lanes, naming rights, newly-tolled facilities, and the PNC Bank Arts Center. The Governor’s Budget projects a $4.5 million FY 2007 supplemental appropriation from investment revenue for costs incurred in FY 2007 to undertake feasibility studies and other activities related to asset monetization.
Discussion Points

1. On page 45 of the Governor’s Fiscal Year 2008 Budget-in-Brief, the Governor points to $64 million in Fiscal Year 2007 cost savings from a reduction of 1,300 positions in State government. These savings have been accomplished through a combination of a hiring freeze, attrition, management savings, and reductions in unclassified positions. The hiring freeze is proposed to continue in Fiscal Year 2008. During his testimony before the Assembly Budget Committee on March 12, 2007, Treasurer Bradley Abelow mentioned that the Department of the Treasury was beginning to feel the impact of the hiring freeze.

   • **Questions:** Please describe the impact of the hiring freeze on Department of the Treasury operations. How many positions has the department contributed to the 1,300 positions eliminated in State government? By division, please indicate the number of positions eliminated and the total dollar value of these positions. How many employees have left the department in Fiscal Year 2007 whom the department feels the need to replace? Has the hiring freeze adversely affected the quality and level of services provided by the department? If so, please provide specific examples. How many employees was the department authorized to hire in Fiscal Year 2007 despite the hiring freeze? Please indicate for which activities these hires were crucial, and the dollar value associated with these hires.

2. The enacted Fiscal Year 2007 budget anticipated savings from management efficiencies ($50 million), information technology efficiencies ($20 million) and procurement efficiencies ($15 million). These savings, while reflected in the Interdepartmental Accounts section of the budget, were to be obtained from executive agency budgeted appropriations, presumably in direct correlation with identified efficiency improvements.

   • **Questions:** What amount of the department’s original Fiscal Year 2007 appropriations were reallocated to Interdepartmental Accounts as savings from management efficiencies, information technology efficiencies and procurement efficiencies, respectively? What specific efficiencies were achieved by the department that correlate to the reallocations? What adverse impacts, if any, on the output and outcomes of department programs and services resulted or will result from these funding reallocations, in the current fiscal year and as projected for Fiscal Year 2008?

3. The Governor’s Fiscal Year 2008 budget seeks a $9 million appropriation for the future **Office of the State Comptroller**, whose creation P.L.2007, c.52 mandates. Organized “in but not of” the Department of the Treasury, the new office would be headed by an appointed State Comptroller and its projected 59 employees would engage in procurement contract audits and monitoring, conduct regular financial audits, and review the performance of State and local governmental entities. In exercising its functions, the office would collaborate with the Office of the Inspector General; the Office of the State Auditor; the Departments of Transportation, Education, Law and Public Safety, Community Affairs and Treasury; and other related entities.

   • **Questions:** Please describe the structure of the new Office of the State Comptroller, detailing the number of subdivisions, if any, the hierarchy, and the
Discussion Points (Cont'd)

number of employees within each job title category. How many of the 59 employees would be new hires and how many would be reassignments of existing positions to the State Comptroller? What is the expected timeframe for starting office operations and for fully staffing the new office? Do the 59 positions represent full staffing? Does the proposed $9 million appropriation assume that all 59 positions would be filled throughout all of fiscal year 2008? If not, what would be the full annual budget outlay for the office assuming full staffing in a fully operational office?

4. a. The Executive’s Fiscal Year 2008 Budget recommends that the Office of the Inspector General receive an appropriation of $2.3 million and be staffed by 18 employees (excluding positions for the newly established Office of the Medicaid Inspector General). The office’s investigative efforts are intended to enhance the accountability, integrity, and oversight of all recipients of State funds, including, but not limited to all State departments and agencies, independent authorities, county and municipal governments, and boards of education. Complaints may be filed with the office by mail, via its website or statewide toll-free hotline.

Established under P.L. 2005, c.119, the office is newly allocated “in but not of” the future Office of the State Comptroller. It is to identify waste, mismanagement, abuse, and fraud in government spending by means of a full-time program of investigation. Prior to the reorganization, the office was also responsible for conducting a full-time program of audit and performance review, competencies that the new Office of the State Comptroller will assume.

- **Questions:** Please provide an update on the office’s activities. Which programs and governmental entities does the office currently review and/or investigate? Is the office still playing a role in the restructuring of the New Jersey Schools Construction Corporation? If so, please describe the office’s involvement.

- Please comment on the impact the creation of the Office of the State Comptroller will have on the operations of the Office of the Inspector General. Since the State Comptroller’s enabling legislation transfers from the Inspector General to the State Comptroller the responsibility to audit and review the performance of governmental entities, is the Inspector General’s workload and its nature going to change materially? Is the restriction of competencies going to hinder the work by the Inspector General or help it focus its resources? Is the office expecting the transfer of staff to the Office of the State Comptroller? Is the transfer of responsibilities going to affect any reviews and investigations the office is currently undertaking?

4. b. In October 2006, the Inspector General released a report on the benefits provided to State authority and commission employees as compared to non-authority State employees and noted various divergences typically in favor of authority and commission employees. The Inspector General recommended that benefit “policies and procedures at each State authority be revised where appropriate and feasible so that there is uniformity and consistency in employee benefits across the board”. The Inspector General has requested that authorities inform the office of any changes to their benefit policies.

- **Questions:** Please provide an update on the implementation of the Inspector General’s recommendation. Which authorities and commissions have changed their
benefit policies and procedures to conform with those applying to non-authority State employees? What had the benefits been at those entities prior to the modification? What cost savings are the benefit realignments expected to generate? Have any authorities or commissions resisted compliance with the Inspector General’s recommendations?

4. c. In November 2006 and February 2007, the Inspector General released reports on improprieties in the awarding and use of $7.7 million in grants between 2001 and 2006 by the Division of Addiction Services in the Department of Human Services to Addiction Treatment Providers of New Jersey, Inc. and the Associated Treatment Providers Management Services Network, Inc.. The Inspector General alleged that the division’s Assistant Commissioner “overrode and circumvented and dismantled the internal controls in place” so that the two organizations with which she had had a long-standing professional relationship could win substantial grants. The Inspector General noted further that the two organizations had routinely misused grant funds and submitted false or misleading documents to the division. The office recommended that the division seek to recoup grant funds that were improperly spent, that it review its internal controls, and that it train staff so as to ensure adherence to grant awarding and management procedures.

- Questions: Does the Inspector General continue to monitor the Division of Addiction Services for compliance with the Inspector General’s recommendations? Has the Inspector General been involved in implementing the recommended actions?

4. d. The Governor’s Fiscal Year 2008 Budget includes language allowing the $3 million Fiscal Year 2007 supplemental appropriation for the Office of the Medicaid Inspector General to carry forward into Fiscal Year 2008. An office within the Office of the Inspector General, the Medicaid Inspector General is intended to prevent, detect, investigate, and reduce fraud, waste, and abuse in the State’s Medicaid program. The federal government matches State expenditures 200 percent through the Medicaid program (or $6 million for the $3 million State appropriation). Pursuant to the “Medicaid Program Integrity and Protection Act”, P.L.2007, c.58, 25 percent of the State share of the monies recovered by the Medicaid Inspector General must be deposited into the “Medicaid Fraud Control Fund” in the Department of the Treasury to pay for the investigation and prosecution of Medicaid fraud claims. Proposed budget language, however, would transfer all such sums to the General Medical Services account in the Division of Medical Assistance and Health Services in the Department of Human Services.

- Questions: Please describe the structure of the new Office of Medicaid Inspector General. What is the anticipated full staffing level? What is the expected timeframe for starting office operations and for fully staffing the office? Does the $3 million supplemental appropriation plus up to $6 million in federal matching funds reflect an estimate of the annual cost of a fully operational office? If not, what would be the full annual budget outlay for the office assuming full staffing in a fully operational office? Please explain the rationale for overriding by means of a language provision the legislative intent expressed in the recently adopted “Medicaid Program Integrity and Protection Act”, P.L.2007, c.58, that 25 percent of the State share of the monies recovered by the Medicaid Inspector General must be deposited into the “Medicaid Fraud Control Fund” in the Department of the Treasury to pay for the investigation and prosecution of Medicaid fraud claims.
Discussion Points (Cont’d)

4. e. Between July 1, 1998 and June 30, 2001, the State received $101.1 million in federal Medicaid funds for school-based health services claimed by school health providers under the Special Education Medicaid Initiative (SEMI). In its May 18, 2006 audit of these claims, the Office of Inspector General in the United States Department of Health and Human Services recommended that New Jersey refund $51.3 million to the federal government. The Inspector General found that 109 of 150 audited school-based claims failed to comply with federal and State program guidelines and that the deficiencies occurred "because (1) the State did not provide proper or timely guidance concerning federal Medicaid requirements to its school health providers, (2) school health providers did not comply with other State guidance that they had received, and (3) the State did not adequately monitor school health claims from providers for compliance with federal and State requirements." The State contests the findings and has provided additional documentation to the federal government.

SEMI is a school-based federal Medicaid Title XIX reimbursement program that allows participating school districts to recover a portion of the costs for certain Medicaid covered services provided to Medicaid-eligible pupils. The services include physical therapy, occupational therapy, speech therapy, psychological counseling, nursing services, and specialized transportation services. The Department of the Treasury shares the administrative responsibility for operating SEMI with the Departments of Children and Families, Education, and Human Services. Specifically, Treasury serves as the contract manager for the billing agent, that, among other responsibilities, receives and processes billing agreements and pupil registration information from school health providers; conducts Medicaid eligibility verification for registered pupils; and monitors program compliance.

- **Questions:** Please provide an update on the status of the federal claim for reimbursement of $51.3 million in contested SEMI funding. Is the federal government still asking for reimbursement of the full amount or a portion thereof? If so, when will the State have to repay the monies? If the federal government maintains its reimbursement claim, will the State have a legal recourse to recoup these funds from the vendor that submitted the claims or from the school districts that provided insufficient documentation in their support? What steps has the department taken to ensure that the current vendor or the Treasury provides proper guidance on federal Medicaid criteria to school health providers, ascertains that school health providers comply with federal and State requirements, and enhances its internal controls so as to ensure compliance with those requirements?

5. The Department of the Treasury has sought to establish uniform Statewide non-tax debt collection policies and procedures and to centralize all statewide collection efforts in the Treasury. Successful implementation of this objective would allow the State to accurately determine the amount of outstanding debt and the adequacy of its collection efforts. Reorganization Plan No. 004-2005 and Circular Letter 06-03, Statewide Non-Tax Debt Collections and Write-Off, direct State departments and agencies to transfer the account records for all non-tax debts to the Treasury three months after the debt is due and owing. In response to an OLS discussion point in the fiscal year 2006-2007 Department of the Treasury Budget Analysis, the department related that 13 departments and agencies had submitted non-tax debt to the Treasury during the first four months of 2006. As of April 2006, the cumulative active non-tax debt amount for these 13 entities was $446 million.
Discussion Points (Cont'd)

- **Questions:** Please provide an update on the department's efforts to consolidate the State's non-tax debt collection functions and to streamline the non-tax debt collection process. Does the department maintain a 'real-time' database indicating the total amount of non-tax debt owed to the State for three months or more? Which departments and agencies transmit to the department all non-tax debts three months after the debt is due and owing and which departments have failed to do so in spite of Reorganization Plan No. 004-2005 and Circular Letter 06-03, Statewide Non-Tax Debt Collections and Write-Off? When the Treasury approaches non-participating departments and agencies about joining the non-tax debt collection program, what reasons do these entities give for not participating in the program? Which departments and agencies have joined the non-tax debt collection program since April 2006?

- What is the cumulative amount of current outstanding non-tax debt for each participating department and agency? For each of the last five years, please provide for each participating department and agency the cumulative amount of outstanding non-tax debt, the amounts collected, and the amount of new balances due.

6. a. In January 2006, the Budget and Reengineering Government Transition Policy Group recommended in its report to the new Administration that the State join more than 30 other states that compile and publish **tax expenditure information**. Such an effort would enable the State and the public to assess the amount of annual revenue foregone due to tax credits, deductions, and exemptions. Replying to an OLS discussion point in the fiscal year 2006-2007 Department of the Treasury Budget Analysis, the Division of Taxation indicated that its Office of Revenue and Economic Analysis had begun compiling a framework for a tax expenditure report and it provided a copy of said framework.

- **Questions:** Please provide an update on the Division of Taxation's efforts to compile and publish a comprehensive tax expenditure report. In so doing, please identify the tax credits, deductions, and rebates for which the division has and does not have tax expenditure information. Please provide the amount of annual foregone revenue for each tax expenditure for which the division has such information.

6. b. P.L.2007, c.43 created the permanent **New Jersey Tax and Fiscal Policy Study Commission** “in but not of” the Department of the Treasury. Composed of nine members, the commission is supposed to engage in a continuous study of State and local tax structures as well as related fiscal issues. It should focus on policies to foster greater efficiency and equity in the assessment and collection of taxes, the identification and quantification of the effects of indirect expenditure policies, the relative incidence of tax burdens and the effects of redistributing tax burdens or tax bases, and the methods for providing funds for government services and infrastructure. The commission should also compile and publish a tax expenditure budget.

- **Questions:** Please describe the planned staff organization of the New Jersey Tax and Fiscal Policy Study Commission. How many positions would it contain? What is the expected timeframe for starting commission operations and for fully staffing the
Discussion Points (Cont'd)

commission? What would be the full annual budget outlay for the commission? Does the Governor's Fiscal Year 2008 Budget include funding for the commission? If so, where is it located? If not, why has the Governor chosen not to provide funding in fiscal year 2008?

7. The federal government has been using performance budgeting since the early 1950s with many state and local governments having adopted it thereafter. Performance budgets link costs with activities by presenting budget line items by governmental activity rather than by governmental entity. In addition, performance budgets typically contain a performance review for each activity that includes measurable program aspects related to demand, workload, productivity, and effectiveness. Proponents thus tend to claim that performance budgets promote transparency and accountability by making agency performance more visible to legislators and the public.

• Questions: Please comment on performance budgeting. Has the department considered organizing the budget document by governmental activity either for all governmental agencies or a select number of pilot agencies? If so, is the department taking steps toward its implementation? If the department has opted not to move toward a performance budgeting framework, what are the reasons for maintaining the current line item-based organization of the budget document? Please describe the technical issues involved in transitioning to performance budgeting. Could the Office of Management and Budget implement performance budgeting with the current budgeting software? If the office decided to transition to performance budgeting, what timeframe would the transition require?

8. Executive Order #9 of 2006 established the 13-member New Jersey Commission on Government Efficiency and Reform charging it with the evaluation of the "budget, structure and organization of government in New Jersey...and advis[ing] the Governor on governmental restructuring, effectiveness, best practices, efficiencies, cost-saving measures, and how best to achieve economies of scale in the delivery of services and programs, at the lowest possible cost". On July 25, 2006, the commission issued a report on the delivery of information technology services in State government whose recommendations became the blueprint for reorganizing the Office of Information Technology as outlined in P.L.2007, c.56 (see Discussion Point 17. a.).

During the October 25, 2006 meeting of the Joint Legislative Committee on Government Consolidation and Shared Services, the Chairman of the commission Richard C. Leone remarked that the commission had also prepared reports on procurement reforms, strategic sourcing, commerce reorganization and personnel reorganization. In addition, he noted that the commission had built two task forces, one on health-care costs and the other on higher education reform.

• Questions: Please provide a copy of all reports prepared by the New Jersey Commission on Government Efficiency and Reform. What have been the commission's key findings? Other than the recommendations contained in the
commission's report on the Office of Information Technology, which commission recommendations have been implemented, which recommendations does the administration intend to implement, and which recommendations will not be implemented? What aspects of State government is the commission currently studying?

9. a. In December 2005, the State Commission of Investigation issued a report entitled *The Gifting of New Jersey Tax Officials*. The commission related that, from February 1999 through March 2005, officials in the Division of Revenue and the Division of Taxation had routinely disregarded established ethics rules by accepting gifts worth over $65,000 from Outsourcing Solutions, Inc. (OSI), a contractor hired by the department to collect debt owed to the State. The commission also revealed that, from 2000 through 2004, OSI overbilled the State by more than $1 million, while the State failed to review the billings’ accuracy. Overall, from January 1999 through June 2005, the contractor was paid $70.3 million for collecting $538.4 million in revenue for the State.

On August 10, 2006, a State grand jury issued a multiple-count criminal indictment against six Department of the Treasury employees, including the Director of the Division of Taxation. The indictment, to which all defendants pleaded not guilty, charged the employees with official misconduct.

- **Questions:** Distinct from the criminal proceedings, how many Treasury staff members have been removed, suspended or otherwise disciplined because of this matter? What impact has the suspension of senior officials with in-depth knowledge of Division of Taxation operations had on division operations?

9. b. In February 2007, the **State agreed not to prosecute OSI** for overbilling the State and seeking to improperly influence state officials, while allowing existing State contracts with OSI to continue up to their respective expiration dates. In return, OSI promised to pay $2 million to the State as a full restitution for all overbilling, accepted a ban on bidding on any State contract through January 2011, and consented to a State monitor of the company’s policies and practices. In March of 2006, Treasury engaged Pioneer Credit Recovery, Inc., a wholly owned subsidiary of Sallie Mae, to assume the deficiency tax collection responsibilities previously held by OSI. According to the Governor’s Fiscal Year 2008 Budget, third party collections of deficient taxes are projected to be $38 million in fiscal year 2007, $38.3 million or 50.2 percent less than in fiscal year 2006 (page D-445). Deficient tax collections are forecast to increase to $57 million in fiscal year 2008, a $19 million, or 50 percent, increase.

- **Questions:** Please provide details on the contracts Treasury still has with OSI. Which activities do the contracts cover? What is the monetary value of these contracts and when will they expire?

- Please explain the 50.2 percent decline in third party deficient tax collections in fiscal year 2007 relative to fiscal year 2006. Has the transition from OSI to Pioneer Credit Recovery proceeded smoothly or have there been complications? On account of which factors does the department expect a 50 percent increase in third party
Discussion Points (Cont'd)

deficient tax collections in fiscal year 2008? For which reasons would that number still be $19.3 million or 25.3 percent below fiscal year 2006 collection levels?

9. c. In response to an OLS discussion point in the fiscal year 2006-2007 Department of the Treasury Budget Analysis, the department stated that it had been working closely with the Office of the Inspector General to strengthen its ethics program. Among the initiatives, the department intended to establish a full-time Ethics Officer to oversee the implementation of and adherence to the Treasury Code of Ethics.

Questions: Please describe Treasury's current ethics training program. What recommendations has the Office of the Inspector General made to strengthen the Treasury Code of Ethics and its enforcement? Which recommendations has the department adopted? Which recommendations has the department chosen not to adopt? For what reason(s)? Has the department changed the Treasury Code of Ethics beyond the recommendations made by the Office of the Inspector General? Has the department already created and filled the full-time Ethics Officer position? If not, what are the reasons for the delay and when does the department anticipate filling the position?

9. d. Addressing an OLS discussion point in the fiscal year 2006-2007 Department of the Treasury Budget Analysis, the department indicated that it was modifying the procedures for the awarding and oversight of contracts. To that end, the department planned to establish two Assistant Inspector General positions in the department to perform financial audits and internal control reviews of contracts. The Assistant Inspectors General would be Office of the Inspector General employees whose cost the Treasury would assume. In accordance with the provisions of P.L.2005, c.336, in July 2006, the Division of Purchase and Property also issued Circular Letter No. 07-03, State Contract Manager, establishing for each State contract a State Contract Manager. The position requires ensuring the accuracy of the contractor’s billing and the quality of the goods delivered and services performed by the contractor.

Questions: Please report on the progress in establishing two Assistant Inspector General positions in the department. Have they been created and filled? If so, what has been Treasury’s experience with this arrangement, especially given that the department intended to expand its internal audit function independent of the creation of the Assistant Inspector General positions? Are the envisioned duties of the Assistant Inspectors General, especially the charge to perform financial audits and internal reviews of contracts, colliding with or duplicating the responsibilities of State Contract Managers, who have to ensure the accuracy of the contractor’s billing and the quality of the goods delivered and services performed by the contractor? Please describe the division of labor between the Assistant Inspectors General and the State Contract Managers.

10. a. The Governor’s Fiscal Year 2008 Budget projects net lottery sales of $2.4 billion to be generated by 6,200 agents and 2,030 drawings. The Constitution mandates that all lottery net proceeds fund State Aid for education and institutions. The State Lottery Fund Schedule on page H-58 of the Governor’s Fiscal Year 2008 Budget illustrates the programs which $848 million in estimated net proceeds will support, in part, in the Department of Agriculture,
Discussion Points (Cont’d)

Education, Human Services, Military and Veterans’ Affairs, and Higher Educational Services in fiscal year 2008.

In fiscal year 2008, the State Lottery is forecast to transfer $848 million to the General Fund, an increase of $35.3 million from the $812.7 million anticipated for the current fiscal year. In fiscal year 2006, however, State Lottery net proceeds were $867 million, which amount exceeded the fiscal year 2007 estimate by $54.3 million and the fiscal year 2008 estimate by $19 million.

- **Questions:** What factors account for the $54.3 million decline in lottery net proceeds in fiscal year 2007 below fiscal year 2006? Is one lottery game or category of games responsible for the decrease or did the decline occur across all lottery games? Did the decrease mirror a national trend or was New Jersey’s experience exceptional? How did the lotteries of Delaware, New York, and Pennsylvania fare? How do the per capita gross sales and net revenues of the State Lottery compare with national averages during the last decade?

10. b. A language provision in the Governor’s Fiscal Year 2008 Budget (page D-450) allows for lottery advertising expenditures to be charged back to the State Lottery Fund.

- **Questions:** What have been the State Lottery’s total annual advertising expenditures since fiscal year 2000, including estimates for fiscal years 2007 and 2008? These figures represent which portion of each year’s lottery budget? Since fiscal year 2000, has there been a correlation between spending on advertising and net revenues? If so, please explain the relationship. In fiscal year 2007, what has been the advertising strategy of the State Lottery? Has it differed from the strategy employed in fiscal year 2006? Which portion of the total fiscal year 2007 advertising budget has been spent on which communication venues? What has been the State Lottery’s target audience? Has it primarily targeted regular, casual or uninitiated players? Does the Lottery intend to alter its advertising strategy in fiscal year 2008?

10. c. In October 2006, the Department of the Treasury cancelled the $106.7 million five-year contract to run the computer system for New Jersey Lottery vendors originally awarded to GTECH Corp. in November 2005. Instead, the contract will be rebid and GTech’s prior contract, which expired in June 2006, was extended through December 2007. In its October 20, 2006 press release announcing the repetition of the procurement process, the Treasury explained the decision as a result of an appearance of impropriety hanging over the award of the contract because “representatives of the MWW Group, whose firm was providing public relations services for the Lottery, may have discussed with GTECH representatives strategies to place GTECH in a better position to be awarded the Lottery contract” over its rival bidder, Scientific Games Corp.. The press release also stressed, however, that no evidence of actual wrongdoing had been found. Subsequent to the award of the contract to GTECH, Scientific Games Corp., which had submitted a bid for $75 million, filed a protest with the Director of the Division of Purchase and Public Property, challenging the award on ethical and technical grounds. In its press release, the department also declared that for all future procurements the Division of Purchase and Property would include provisions in the requests for proposal requiring bidders to disclose any potential conflicts of interest and barring bidders, their representatives, agents, and lobbyists from initiating any inappropriate contact with any Executive Branch officials.
Discussion Points (Cont'd)

- **Questions:** When will the Division of Purchase and Property issue the new request for proposal for the contract to run the computer system for New Jersey Lottery vendors? Will the composition of the bid evaluation committee differ from the composition of the bid evaluation committee for the voided contract? Are the parameters for evaluating the competing bids going to be identical to those applied to the voided contract? If not, which changes will be made to the parameters?

- Has the Division of Purchase and Property already implemented the requirement to have bidders in future procurements disclose any potential conflicts of interest? If so, since which date has the change been in effect? Has the change already materially impacted procurement decisions? If so, how many bids have been adversely affected by the disclosure of a conflict of interests? How does the Division define “inappropriate contact with any Executive Branch officials” that bidders, their representatives, agents, and lobbyists are prohibited from initiating?

11. a. The Division of Investment manages the investment portfolios of the various State pension funds, whose total assets were valued at roughly $79 billion on June 30, 2006, according to the New Jersey Division of Pensions and Benefits’ Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006.

On July 20, 2006, the State Investment Council (SIC) voted to alter the investment strategy for the State pension funds. According to newspaper reports, this modification seeks to reallocate pension fund resources among different asset classes so as to enhance and stabilize returns. The new strategy involves shifting the management of 25 percent (up from 13 percent) of the pension funds’ portfolio from division employees to private money managers by the end of 2007 at an additional cost of at least $200 million per year in fees. In January 2005, the SIC had authorized the “Alternative Investment Program” (AIP), under which 13 percent of pension fund assets were to be gradually invested in hedge funds, private equity, and real estate under the management of external money managers. As of December 2006, the division contributed $2.1 billion of state pension fund assets to 53 alternative investments and committed $7.2 billion to 75 alternative investments.

- **Questions:** Please detail the investment strategy adopted in July 2006 by the SIC for the State pension funds. Which share of the portfolio is supposed to be allocated to which asset classes? How does this allocation differ from previous asset allocation targets? Does the new investment strategy permit infrastructure investments? Please comment on the accuracy of the $200 million cost estimate for transferring 12 percent of the pension funds’ portfolio from the auspices of division employees to private money managers? Is that number still an accurate cost projection? What are the components of the most recent estimate? The most recent cost estimate equals which percentage of the funds intended to be transferred to private money managers?

- Please provide an update on the implementation of the AIP and the new investment strategy, including information on investments approved, the approval and inception months for each investment, and the amounts committed and contributed to each investment. What have been the returns on these investments to date?
Discussion Points (Cont'd)

- Please identify all contracts, outside vendors or entities engaged for AIP purposes to date, including the “General Consultant”, and specify the amount paid or expected to be paid for the services of each and the terms of each contract. What is the estimated amount of annual fees to be paid under the pre-July 2006 AIP that set aside 13 percent of pension fund assets for alternative investments to be effectuated by external money managers? What are the individual components of this total? The total equals which percentage of the funds contributed and committed to the care of private money managers?

- Please provide an update on the status of lawsuits brought against the State by the Communications Workers of America Local 1033 and the New Jersey Education Association challenging the SIC’s authority to delegate investment decisions to external money managers.

11. b. As of December 2006, the Division of Investment committed $3.7 billion of pension fund resources to 38 private equity groups, which raise capital from institutional investors and wealthy individuals to either purchase companies or to further invest in companies they already run. Investors committed less than $10 billion to private equity partnerships in 1991 but their commitments are now about $500 billion.

In its February 10, 2007 edition, The Economist advised investors to worry about this boom. First, it noted that private equity was not really an alternative investment as the economic factors that drive stock market returns also drive the performance of private companies. Second, the newsmagazine questioned whether the industry could absorb the massive influx of capital and preserve its historic above-stock market performance. It suggested that as more and more assets chase a limited number of potentially high-return investments, the competition could push up the prices for deals and force down future returns. A last concern touched the high compensation of private equity partnerships (which tend to charge an annual management fee of 1.5 percent to 2.5 percent and take 20 percent of the profits) relative to traditional investment funds. In a research paper entitled “Private Equity Performance: Returns, Persistence and Capital Flows” published in the Journal of Finance, Steve Kaplan of the University of Chicago and Antoinette Schoar of the Massachusetts Institute of Technology show that average private equity fund returns exceed the performance of the S&P 500 gross of fees yet slightly trail the S&P 500 net of fees.

• Questions: Please comment on the concerns raised about private equity. What is the division’s assessment of the possibility of an asset price bubble building up in the private equity industry as institutional investors continue the recent trend of allocating significant portions of their portfolios to alternative investments? Is the division worried that the massive influx of capital in the industry might depress future investment returns, as it creates more competition for existing investment opportunities? As to the division’s asset diversification goal, in which sense is investing in a private company different from investing in a public company, given that market fundamentals appear to determine the valuation of both? Since average private equity returns net of fees seem to be roughly equivalent to the S&P 500, is the division apprehensive about the compensation level of private equity firms? When negotiating with private equity firms, does the division use its market power to lower
Discussion Points (Cont'd)

their compensation demands or is the strong demand for private equity putting the firms into a position to obtain the compensation they seek?

11. c. As of December 2006, the Division of Investment committed $1.5 billion to 14 hedge funds. Hedge funds come in a multitude of forms with distinct investment techniques. Lightly regulated, they consist of private pools of capital, often borrow to enhance returns, and are partly paid on the basis of performance. Their ability to bet on falling prices distinguishes them from traditional funds, which profit only if prices rise. Like private equity, hedge funds have seen a boom as institutional investors have pursued asset diversification strategies. Hedge Fund Research estimates that 610 hedge funds controlled $39 billion of assets in 1990. The most recent estimate mentions over 9,000 such funds with $1.3 trillion of assets.

In its November 18, 2006 edition, The Economist argued that hedge fund fees were excessive relative to traditional investment funds. Like private equity, hedge funds tend to charge an annual management fee of 1.5 percent to 2.5 percent and take 20 percent of the profits. Investors frequently invest in hedge funds through funds-of-hedge funds, which add a second layer of fees (the State is invested in three funds-of-hedge funds as of December 2006). The newsmagazine also questioned the hypothesis that hedge funds as a whole foster true asset diversification. It noted that the compounded annual return from the Hedge Fund Research composite index was 18.3 percent in the 1990s and that it has been 7.5 percent since 2000. Other asset classes have produced similar results, suggesting that hedge fund returns might generally be correlated with financial market conditions. Moreover, while conceding the existence of a limited number of uncorrelated hedge funds, the newsmagazine cautioned that these tend to have niche strategies and a limited capacity to absorb investments. It alluded to the 2005 bust in convertible arbitrage as an example of how too much money chasing one investment opportunity can dilute returns.

- Questions: Please comment on the concerns raised about hedge funds. What is the division's assessment of the possibility of an asset price bubble building up in the hedge fund industry as institutional investors continue the recent trend of allocating significant portions of their portfolios to alternative investments? Is the division worried that the massive influx of capital in the industry might depress future returns, as it creates more competition for existing investment opportunities? Since market fundamentals seem to impact hedge and traditional funds, in which way(s) do hedge funds diversify the state pension funds' investment portfolio and help to hedge against a downturn in the market? If they protect against a downturn by being able to bet on falling asset prices, could the State not achieve the same goal at a lower cost in the futures market? Since hedge fund returns have failed to considerably outperform the stock market in recent years as they had done in the 1990s, is the division apprehensive about the compensation level of hedge funds? When negotiating with private hedge funds, does the division use its market power to lower their compensation demands or is the strong demand for hedge funds putting them into a position to obtain the compensation they seek?

12. The Division of Property Management and Construction manages the real estate needs of State government. It purchases, sells, and leases office, warehouse, and other space for all State government entities, with certain exceptions. The division also provides full maintenance
Discussion Points (Cont'd)

services for 40 State-owned buildings in the Trenton area, renovation and alteration services valued below $39,600, and related contract administration services.

In response to an OLS discussion point in the fiscal year 2006-2007 Department of the Treasury Budget Analysis, the division stated that it was evaluating procedures aimed at accelerating the State’s lease procurement process, which took over two years from the initial assessment of space needs to final approval in 2005. The process included (a) the public advertisement and solicitation of competitive proposals in a multi-submission process; (b) the approval of all leases by the State Leasing and Space Utilization Committee in an open public meeting; (c) the negotiation of final contract terms by the Attorney General’s Office; (d) responding to changing space needs by client agencies during the procurement process; and (e) ensuring that all design, construction, and fit-out of the leased facilities meet regulatory requirements. In its evaluative efforts, the division had reached out to the State of Maryland’s Department of General Services, which the Federal government recognizes for best practices with respect to property management.

In response to another OLS discussion point, the division indicated that as of May 3, 2006, it oversaw 89 month-to-month leases and that it sought to reduce that number in favor of term leases. Moreover, to address the predicament that the division could not effectively manage the State’s real estate needs because State agencies did not comply with a statutory requirement to report the utilization of all space owned, leased, and subleased, the division informed that it was working with the Office of Information Technology (OIT) on a project to gather space utilization information by means of OIT’s payroll system.

- Questions: Please provide a progress report on the division’s review of its lease procurement process as it pertains to reducing the amount of time it takes to secure a lease. Has the division already implemented any changes? Which modifications is the division considering? Which of these contemplated modifications have originated in the dialogue with Maryland’s Department of General Services?

- How does the division’s collaborative project with the OIT to use the State’s payroll system as a proxy for State agencies’ space utilization function? Has the project been implemented? If so, what have been the results of the implementation? Has the division undertaken any initiative to encourage State agencies to comply with the statutory space utilization reporting requirement? Has the Treasurer considered compelling compliance by withholding funding to non-compliant State agencies?

- How many of the 89 month-to-month leases as of May 3, 2006 have been converted to term leases? Please state how much the State is intending to spend on month-to-month leases in Fiscal Year 2008.

13. The Division of Purchase and Property, created pursuant to N.J.S.A. 52:18A-16 et seq., serves as the State’s central procurement agency. To accomplish its mission, the division also runs the State Distribution and Support Services Center, located in Ewing, which provides State agencies, counties, municipalities, and school districts with goods acquired through bulk purchasing. Operating as a revolving fund, the self-supporting center bills its clients for the expenses it incurs in providing purchasing services to them—currently the cost of the goods
Discussion Points (Cont’d)

purchased plus 15 percent. According to the Governor's Fiscal Year 2008 Budget, the center is expected to spend over $50.9 million in Fiscal Year 2008, which is $2.7 million more than in Fiscal Year 2007 (page G-8).

The Department of the Treasury is in the process of altering its bulk purchasing policies, which also redefine the center's role. Under the new procedures, retailers ship some goods directly to the ordering governmental entity instead of the center if the direct shipment is more cost-effective than distribution by the center. Governmental entities, however, continue to place their orders through the division. In reply to an OLS discussion point in the fiscal year 2006-2007 Department of the Treasury Budget Analysis, the division indicated that as of April 13, 2006, the State had already saved $816,000 from new contracts under the buy direct program.

The department intended to economize another $1 million per year from transferring materials previously stored in seven warehouses to the redefined State Distribution and Support Services Center and subsequently closing these warehouses. Addressing another OLS discussion point, the department pointed to the closure of four warehouses and the reassignment of their staffs and operations to new sites.

- **Questions:** Please provide an update on the implementation of the new bulk purchasing procedures. Since implementing these new procedures, how many contracts have adopted the direct buy option and how many contracts have maintained the distribution of commodities through the State Distribution and Support Services Center? What have been the cost savings generated by contracts that stipulate that vendors ship commodities directly to the ordering governmental entity? Have all seven warehouses targeted for closure been vacated? If not, when are they going to be vacated? What have been the associated lease savings?

14. During his testimony before the Assembly Budget Committee on March 12, 2007 and before the Senate Budget and Appropriations Committee on March 28, 2007, Treasurer Bradley Abelow mentioned that the Department of the Treasury had reduced the State motor vehicle fleet by 702 vehicles since the beginning of the Corzine administration. According to the Governor's Fiscal Year 2008 Budget, however, the Central Motor Pool had 15,009 vehicles under its auspices in fiscal year 2005, 15,987 in fiscal year 2006, and manages an estimated 15,597 in fiscal year 2007 and will manage an estimated 15,917 in fiscal year 2008 (page G-6). The annual change was thus a 978 vehicle growth in fiscal year 2006, is an estimated 390 vehicle decline in fiscal year 2007, and will be an estimated 220 vehicle increase in fiscal year 2008. Put differently, from fiscal year 2005 through fiscal year 2008, the State Central Motor Pool will grow by 808 vehicles, or 5.4 percent.

- **Questions:** Please reconcile the 702 vehicle reduction in the State motor vehicle fleet cited by the Treasurer with the data presented on page G-6 of the Governor's Fiscal Year 2008 Budget. Please explain the rationale for growing the State motor vehicle fleet by 220 in fiscal year 2008. What class of motor vehicles will be bought and for which use by which employees? Is the reduction in the size of the motor vehicle fleet in fiscal year 2007 just a temporary phenomenon as old vehicles were retired and the purchase of new vehicles deferred? For each fiscal year since fiscal year 2005, please provide the number of vehicles retired and purchased, indicating
Discussion Points (Cont’d)

how many of the vehicles purchased directly replaced a retired vehicle. Please also indicate how many of the retired vehicles that have not yet been replaced the State Central Motor Pool intends to replace during which timeframe.

15. Executive Order #11 of 2006 established the Director of Energy Savings within the Department of the Treasury who shall study and implement energy efficiency measures for State government (whose energy expenditures for its facilities approaches $128 million per year). Specifically, the director shall oversee energy audits conducted at State buildings; coordinate with State agencies to implement energy efficiency practices; review the fuel efficiency of the State’s vehicle fleet; and collaborate with the Economic Development Authority, the Office of Economic Growth, the Commission on Science and Technology and the Board of Public Utilities to develop a plan for promoting economic development around renewable energy and advanced energy technologies. Moreover, Executive Order #54 of 2007 instructs the director to develop specific targets and implementation strategies for reducing energy usage at State facilities and the State vehicle fleet’s fuel consumption. During his testimony before the Assembly Budget Committee on March 12, 2007, Treasurer Bradley Abelow mentioned that the director had set a goal of reducing energy consumption for State facilities by ten percent over the next five years.

• Questions: Please describe the organization of the Director of Energy Savings, indicating the number of employees, their titles, salaries, and the director’s total budgetary outlay.

• What have been the accomplishments of the director thus far? How many energy audits have been conducted? Have the energy audits led to the implementation of any energy efficiency measures? If so, please specify the measures implemented, the estimated cost savings resulting therefrom, and their capital cost, if any. What is the basis for the director’s target of reducing energy consumption for State facilities by ten percent over the next five years? How would the State achieve this goal and what would be the capital cost required to meet the target?

• Has the director already reviewed the State vehicle fleet’s fuel efficiency? If so, what have been the director’s findings and subsequent actions taken, if any? Has the director already issued a target for a reduction in the vehicle fleet’s fuel consumption? If so, what is the objective and how has the director arrived at that specific goal? If not, by which date does the director expect to have fixed a target?

16. The Governor is requesting $2,251 billion in Fiscal Year 2008 spending on the revised Homestead Property Tax Credit program (P.L.1990, c.61). Under its new structure, a homeowner’s credit amount is based on the homeowner’s gross income and the homeowner’s property taxes paid up to $10,000. The percentages vary based on three income levels: 20 percent for incomes up to $100,000, 15 percent for incomes over $100,000 up to $150,000, and 10 percent for incomes over $150,000 up to $250,000. On page 19 in the Budget-in-Brief, the Governor details the homestead property tax rebate benefits for tenants, which,
Discussion Points (Cont'd)

dependent on a tenant’s gross income and whether a tenant is 65 years of age, blind, or disabled, range from $80 to $860.

- **Questions:** For Fiscal Year 2007 “FAIR” rebate distributions, please provide the following data for the senior and non-senior and the homeowner and tenant populations: 1) distribution of rebates by income brackets; and 2) distribution of rebates by rebate amounts.

- Since homestead rebate amounts and income tax property tax deduction amounts are a function, in part, of real estate values, please provide a tax year 2006 statewide distribution of the number and the value of residential property by no fewer than eight distinct brackets, broken up in increments of at least $100,000.

17. a. P.L.2007, c.56 conferred statutory authority on the Office of Information Technology (OIT) and maintained it "in but not of" the Department of the Treasury as a provider of information technology services to State agencies. To that end, it oversees the mainframes, servers, networks, and databases that compose the State's technical infrastructure; operates the Garden State Network, a statewide integrated communications network; and runs the State's major data centers, including the Office of Information Technology Availability and Recovery Site (OARS). In addition, it manages the State's internet environment and offers application development and maintenance, geographical information systems, and data management services. For fiscal year 2008, the Governor recommends an OIT budget of $146.5 million.

P.L.2007, c.56 reorganizes OIT consistent with the provisions of Executive Order #42 of 2006. The restructuring seeks to institute OIT as State government's central information technology management and oversight body. The Chief Technology Officer has overall responsibility and authority for all information technology operations in the executive branch. The law directs all executive branch agencies to cooperate fully with OIT. However, it does not consolidate all information technology operations in OIT, as agencies may continue to run their own information technology units if OIT deems the decentralized approach more cost-effective and efficient than strict consolidation. To foster coherent and rationalized executive branch-wide information technology policies, executive branch agencies are currently in the process of preparing agency strategic plans detailing their agencies' information technology service needs for the next three years.

An Information Technology Governing Board heads the reorganized OIT and shall determine strategic direction, standards, and funding priorities. A Chief Technology Officer runs OIT’s day-to-day operations and coordinates information technology operations across the executive branch. Six deputy chief technology officers have responsibilities for information technology management, planning and budgeting in six subject areas (Public Safety; Health and Social Services; Education, Cultural, and Intellectual Services; Environmental and Transportation Services; Business and Community Services; and Administrative Services). A newly-created Project Review Board reviews and monitors all large scale information technology projects in the executive branch.
Discussion Points (Cont'd)

- **Questions:** Please provide an update on the implementation of the OIT reorganization plan. Have the structural changes been put in place? If not, when does the office expect the new organizational structure to be fully operational?

- Are all executive branch agencies fully cooperating with OIT as required by P.L.2007, c.56? If not, which agencies have declined to do so? What reasons do they offer for their decision?

- Please describe the analytical method OIT uses to determine whether an information technology process should be consolidated in OIT or left with an individual agency. Have information technology responsibilities been shifted to or from OIT following the start of the reorganization? If so, which responsibilities have been transferred and according to which rationale? Has the office defined specific information technology tasks that should generally stay with individual agencies? If so, what are the information technology functions that should remain with the agencies?

- P.L.2007, c.56 charges the Governing Board with establishing a monetary threshold for information technology projects requiring the review and approval of the Project Review Board. Has the Governing Board determined that threshold? If so, what is the limit? If not, when does OIT expect the setting of the threshold?

- Please provide an update on the status of the creation of a Statewide information technology strategic plan. Have all agencies submitted their three-year strategic plans? If not, what is the target date for the submittal of all agency strategic plans? By which date does OIT anticipate beginning the implementation of the new Statewide information technology strategic plan?

- What is the projected total amount of State information technology spending in fiscal years 2007 and 2008?

17. b. According to OIT program data in the Fiscal Year 2008 Executive Budget, the office expects to support 20,000 cell phones in fiscal year 2008. This number represents a 25 percent increase over fiscal year 2007 (16,061 cell phones supported) and nearly doubles the fiscal year 2005 total (10,685 cell phones supported).

- **Questions:** Please explain the policy for State-issued cell phones. Which employees receive State-issued cell phones? Why is the number of State-issued cell phones expected to double from fiscal year 2005 through fiscal year 2008? Which employees account for this increase? What is the total and average cost for supporting State-issued cell phones in fiscal year 2008? If no new cell phones were issued in fiscal year 2008, what would be the budgetary savings? Is there a corresponding reduction in other forms of telecommunication that results from increased cell phone usage? Are those savings reflected in fiscal year 2008 budget recommendations?

- Please explain the policy for State-issued blackberries. Which employees receive State-issued blackberries? How many blackberries did the State support in fiscal year
Discussion Points (Cont’d)

2006, is supporting in fiscal year 2007, and will be supporting in fiscal year 2008? What is the corresponding annual cost?

17. c. According to OIT program data in the Fiscal Year 2008 Executive Budget, the office expects to receive 80,000 user calls to the help desk (network call center). This number represents a 25 percent decline from the estimated 120,000 calls received during fiscal year 2007.

- **Questions:** Please provide the rationale underlying the estimate that the network call center will experience a 25 percent decrease in its call volume in fiscal year 2008. Please detail the cost savings the office is anticipating from this decline.

17. d. On page 46 in the Budget-in-Brief, the Governor highlights that the State reduced information technology spending by $9.6 million year-on-year during the first seven months of fiscal year 2007 by means of moratoria on information technology equipment and consultant services procurements. Exempted from the moratoria are initiatives whose disruption would increase future costs or trigger a significant loss of investment, as well as emergency maintenance, repairs and supplies under $2,500, and projects mandated by the federal government.

- **Questions:** Please indicate the total monetary value of all information technology procurements that have been exempted from the information technology moratoria. Does OIT expect the continuation of the moratoria through fiscal years 2007 and 2008? If so, what are the cost savings the office anticipates to achieve in both fiscal years?

18. a. Organized "in but not of" the Department of the Treasury, the Board of Public Utilities (BPU) is a cabinet level regulatory authority with a statutory mandate (R.S.48:2-1 et seq.) to ensure safe, adequate, and proper public utility services such as natural gas, electricity, water, sewer, and telecommunications including cable television.

In authorizing a **system-wide cable television franchise system**, P.L.2006, c.83 established a two-tiered system of franchises under which a company may receive an approval for providing cable television service. A company may either seek the consent from each municipality in which it intends to offer cable television service or it may seek a system-wide cable television franchise covering multiple municipalities. The BPU ultimately approves both applications. On December 15, 2006, the agency granted the first system-wide cable franchise to Verizon New Jersey, which had requested an authorization to provide cable services to 316 municipalities via its fiber optic network.

- **Questions:** Please provide an update on the implementation of P.L.2006, c.83. Which procedures have been put in place to scrutinize applications for a system-wide cable television franchise? Given that the law requires the BPU to rule on a system-wide franchise application within 45 days after its receipt, does the BPU have enough personnel to thoroughly and critically assess each application? Has the review of Verizon’s application created a backlog in other BPU activities while employees evaluated the application so as to meet the 45-day deadline? In reviewing Verizon's
Discussion Points (Cont’d)

application, has the BPU become aware of weaknesses in the review process? Have other companies filed an application for a system-wide cable television franchise or, to the best of BPU’s knowledge, are other companies considering filing such an application?

18. b. The BPU is considering revisions to two energy assistance programs under the **Universal Service Fund (USF)**: the USF and the “Fresh Start” credit programs. In fiscal year 2005, their operation cost $102 million, of which USF credits accounted for $73.7 million, “Fresh Start” credits for $21.7 million, and administrative and other expenses for the remainder. The USF credit program seeks to ensure that eligible utility customers have to pay no more than 6 percent of their annual income for their natural gas and electric service. The “Fresh Start” credit program, on the other hand, allows first-time USF credit recipients with at least $60 in arrears on their energy bills to retire their outstanding balances by paying their USF-adjusted affordable energy bill in full for 12 consecutive months following program admittance. While New Jersey ratepayers fund the programs via the societal benefits charge included in their electric and gas bills, the BPU carries the financial responsibility for the programs, the Department of Health and Senior Services administers them, and the electric and natural gas utilities credit the benefits to customer accounts.

Based on an April 2006 report entitled “Impact Evaluation and Concurrent Process Evaluation of the New Jersey Universal Service Fund” by the nonprofit Applied Public Policy Research Institute for Study and Evaluation (“APPRISE”), BPU staff suggested numerous USF program modifications to the BPU Board on June 14, 2006. They proposed: (a) the elimination of the “Fresh Start” program; (b) the adoption of fixed USF credit amounts so as to shift the risk for fluctuating energy costs and increased energy usage to program beneficiaries; (c) the establishment of performance measures and annual targets to allow for an assessment of the program’s effectiveness and efficiency; (d) the enhancement of regulatory oversight and information management by means of a centralized data management system; (e) the creation of an audit program through which the BPU ascertains that all program partners (utilities, the Department of Health and Senior Services, the Department of Community Affairs, the Office of Information Technology, and service providers) have fulfilled their fiscal responsibilities; and (f) since the program serves 49 percent of the eligible population, the removal of barriers to enrollment by implementing a “one-stop shopping” plan for all energy assistance and conservation plans and the pursuit of a centralized, coordinated, and targeted communications strategy.

The Governor’s Fiscal Year 2008 Budget anticipates $240.9 million in USF resources for fiscal year 2008 (page H-34). Of this amount, the Governor proposes $156.4 million in direct fund expenditures as well as a transfer of $76.8 million to other funds, of which $72.6 million would finance the "Lifeline Credit Program" (C.48:2-29.15 et seq.) and the "Tenants' Lifeline Assistance Program" (C.48:2-29.31 et seq.), under which 316,650 low-income households would receive up to $225 in gas and electric utility credits in fiscal year 2008.

**Questions:** Please explain the cash flow in and out of the Universal Service Fund. Which percentage of a ratepayer’s energy bills supports the USF and which dollar amount is the average ratepayer contributing to the USF per year? If the percentage differs by customer class (residential, industrial, commercial), please indicate the percentage by customer class. The USF contribution constitutes which percentage of the total societal benefits charge? Have the USF rates changed since 2000? If so,
Discussion Points (Cont'd)

please detail the progression. Which programs do USF revenues support, including programs financed by the amounts transferred to other funds? Please provide USF program funding data for the last five fiscal years for which the data are available. For each of the last five fiscal years, how many households have been served by the USF and the “Fresh Start” credit programs and what have been the average benefit?

- Please provide a status report on the modifications to the USF energy assistance programs advanced by BPU staff. Which recommendations has the Board approved, which has it adopted in amended form, and which has it rejected? For each recommendation, please describe the rationale for the Board’s determination. Please provide a detailed explanation of each change the Board intends to apply to the credit programs as well as a timeline for its full implementation. If the Board has not yet acted on the recommendations, please explain the cause(s) of the inaction and indicate, if possible, by which date the Board intends to consider the matter.

18. c. The BPU oversees New Jersey’s Clean Energy Program, created as part of P.L.1999, c.23 (C.48:3-49 et seq.) and operative since April 2001, through which the State seeks to promote increased energy efficiency and the use of clean, renewable sources of energy including solar, wind, geothermal, and sustainable biomass. The program’s financial incentives support residents’ purchases of high efficiency heating and cooling systems, commercial energy efficiency projects, installations of solar electric or other renewable energy systems, and the planting of trees, among other initiatives. New Jersey ratepayers fund the Clean Energy Program via the societal benefits charge included in ratepayers’ electric and gas bills.

The Governor’s Fiscal Year 2008 Budget anticipates $313.4 million in Clean Energy Fund expenditures, a year-on-year increase of $105.0 million, or 50.4 percent (page H-6). The outlay is supported by $223.8 million in fiscal year 2008 revenues (an increase of $31.5 million, or 16.4 percent, over fiscal year 2007) and by $89.6 million from accumulated surplus funds, which would fall to $16.5 million at the end of fiscal year 2008. Reserves thus account for 28.6 percent of anticipated fiscal year 2008 expenditures.

- Questions: Has the Office of Clean Energy taken direct operational control of all energy efficiency programs formerly administered by the utilities, as the BPU announced in reply to an OLS discussion point in the fiscal year 2006-2007 Department of the Treasury Budget Analysis? If so, are all of the expenditures and revenues of the Clean Energy Program accounted for in the Clean Energy Fund? Which percentage of a ratepayer’s energy bill supports the Clean Energy Program? This percentage constitutes which percentage of the total societal benefits charge? Please itemize the sources of the fund’s revenues by firm and by ratepayer base. Please provide a detailed report on the fund’s actual or estimated fiscal year 2006, 2007, and 2008 expenditures, indicating which sums the BPU intends to spend on each activity and program supported by the Clean Energy Fund. Which factors account for the anticipated 50.4 percent year-on-year increase in program expenditures in fiscal year 2008 and for the 16.4 percent revenue growth?

- Please provide a three-year projection of the Clean Energy Program’s expected revenues and expenditures beyond fiscal year 2008. Given that recurring revenues cover 71.4 percent of fiscal year 2008 expenditures, is the BPU concerned about a structural deficit in the program? Are expected fiscal year 2009 spending
commitments fully supported by anticipated fiscal year 2009 revenues and the remaining $16.5 million surplus? If so, what is the risk that they may not? If not, what steps is the BPU considering to maintain the program’s financial equilibrium?

- Please comment on the distribution of the values of homes to whose modification the Clean Energy Program is financially contributing. Which percentage of homes receiving benefits under the program in the last three years are inhabited by individuals receiving Universal Service Fund assistance or who could otherwise be deemed of low or moderate incomes? Which percentage of homes having received Clean Energy Program benefits in the last three years were valued at above $1 million at the time of application?

18. d. In its February 2007 audit report on Clean Energy Fund transactions from January 1, 2004 through November 30, 2006, the Office of the State Auditor noted certain internal control weaknesses relating to Office of Clean Energy (OCE) operations. Specifically, the State Auditor recommended that:

(a) the BPU address future banking needs in compliance with Office of Management and Budget banking regulations, since the BPU had created a clean energy program account outside of the State’s regular account structure (the OLS notes that the agency had done likewise for the Universal Service Fund and the Retail Margin Fund);
(b) the OCE establish written policies and procedures for the clean energy grant award process and for the retention of appropriate documentation;
(c) the OCE initiate procedures to ensure compliance with all grant requirements;
(d) the OCE establish adequate controls and procedures to identify and conduct business with parties having a relationship with the office;
(e) the OCE obtain the necessary expertise to perform administrative functions in-house instead of contracting for these services;
(f) the OCE maintain adequate documentation to support all vendor payments and ensure that payments are reasonable and relate to the Clean Energy Program;
(g) the OCE require and analyze detailed expenditure reports from utility companies for energy efficiency programs they administer; and
(h) the OCE issue federal income tax forms to vendors who were paid in excess of $600 before March 2005.

The agency responded by pointing to the implementation of certain recommendations and steps taken towards the implementation of others:

(a) following the transfer of Clean Energy Program funds to the State’s accounting structure in March 2005, the program complies fully with Office of Management and Budget banking requirements;
(b) the BPU has been working with the Department of the Treasury since 2004 to update its procurement processes and procedures and is developing a centralized filing system for all procurement records to ensure the maintenance of appropriate documentation;
(c) the OCE has revised its procedures to clearly require that final grant payments are contingent upon the certification by office staff of the final report and final financial report submitted by grant recipients;
Discussion Points (Cont’d)

(d) the BPU is crafting written policies and procedures regarding business transactions with third parties that have a relationship with the OCE;
(e) the OCE plans to increase staffing so as to perform basic administrative responsibilities in-house instead of contracting for these services;
(f) the additional staff should maintain adequate documentation to support all vendor payments and ensure that payments are reasonable and relate to the Clean Energy Program;
(g) the Department of the Treasury contracted with a vendor in September 2006 to perform a funding reconciliation for 2001 through 2005 for the Clean Energy Program to ascertain that program expenses recorded on the books of each utility match the program expenses reported to the BPU. The BPU expects the completion of the reconciliation in February 2007, which shall constitute the basis for a full audit of all Clean Energy Program managers, including the seven electric and natural gas utilities and all state agency managers; and
(h) the OCE has provided the Department of the Treasury with the necessary details so that the department can process the required Form 1099s for calendar year 2004 and 2005.

Questions: Please indicate whether OCE procurement processes and procedures are in line with standard Treasury procurement processes and procedures at this time. If not, which steps does the OCE still need to take to achieve full conformity? By which date does the OCE envision the completion of the centralized filing system for all procurement records?

Please explain the certification process that OCE staff bring to bear on the final report and the final financial report submitted by the grant recipient prior to the disbursement of final clean energy grant payments.

Please explain the policies and procedures the OCE intends to use to identify and conduct business with third parties that have a relationship with OCE. By which date does the OCE intend to have these policies and procedures adopted in writing?

Please provide details on OCE’s plan to enhance its administrative functions, including the maintenance of adequate documentation to support all vendor payments and to ensure that payments are reasonable and relate to the Clean Energy Program. How many employees would be charged with exercising these functions? How many of them would have to be hired? How much would this additional oversight cost? Are these positions included in the fiscal year 2008 budget? The BPU is currently looking for a program coordinator for clean energy programs, which contractor “will perform the day-to-day administrative functions involved in coordinating, and monitoring all OCE financial transactions. In performing these functions the contractor shall track the flow of funds from the Clean Energy Trust Fund to recipients of rebates and the payments to contractors” (Solicitation 2007-X-38468). Given that the need for the auditing functions described appears to be permanent, why is the BPU looking for a contractor as opposed to developing the expertise in-house?

Has the funding reconciliation for 2001 through 2005 for the Clean Energy Program to ascertain that program expenses recorded on the books of each utility match the
program expenses reported to the BPU been completed? If so, please detail the findings. Has the full audit of all Clean Energy Program managers, including the seven electric and natural gas utilities and all state agency managers begun? If not, when does the BPU anticipate commencing this activity?

18. e. The Governor’s Fiscal Year 2008 Budget anticipates $18.6 million in new Retail Margin Fund revenues for fiscal year 2008 and $19.6 million in expenditures, leaving a fund balance of $74.8 million at the end of fiscal year (page H-28). Administered by the BPU, the fund is expected to receive $15.6 million in fiscal year 2008 from the 0.5¢ per kilowatt-hour retail margin that electric distribution companies have been charging certain non-residential customers remaining on Basic Generation Service since August 2003 under sections 3 and 9 of P.L.1999, c.23 (C.48:3-51 and 48:3-57).

Proceeds from the Retail Margin Fund support the BPU Office of the Business Energy Ombudsman, an office created by P.L.2005, c.215 (C.48:2-92 et seq.), whose estimated expenses are $380,000 in fiscal year 2007 and $451,000 in fiscal year 2008 (page C-21). The ombudsman functions as a centralized resource for businesses to obtain information and assistance on State energy costs and programs. On October 31, 2006, the BPU announced the creation of the office and the hiring of an ombudsman and a manager of business outreach.

- **Questions:** Please provide a detailed report on the Retail Margin Fund’s actual or estimated fiscal year 2007 and 2008 expenditures, indicating which sums the BPU intends to spend on each activity and program supported by the fund. Which uses does the BPU contemplate for the $74.8 million fund balance?

- Is the Office of the Business Energy Ombudsman fully operational? If not, by which date does the office anticipate being fully operational? Please describe the organization of a fully operational office, including details on the number of employees, their job titles, and salaries. Please outline the work performed by the office to date, including, if appropriate given the office’s relatively short existence, any accomplishment.

18. f. In response to an OLS discussion point in the fiscal year 2006-2007 Department of the Treasury Budget Analysis, the BPU stated that New Jersey had joined the Regional Greenhouse Gas Initiative (RGGI) and that the New Jersey Clean Energy Program would earn approximately $20 million annually from revenues of emission credits under RGGI.

In August 2006, the seven Northeastern states comprising the RGGI (Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York, and Vermont) released model regulations aimed at reducing regional carbon dioxide emissions from power plants. Under the plan, these emissions would be capped at their 1990 level from 2009 through 2015 and reduced to 90 percent of the 1990 level by 2019. The model regulations include a mandatory cap-and-trade program under which a power plant owner would be allowed to emit a certain amount of carbon dioxide. If the owners finds it too expensive or cumbersome to reduce the owner’s emissions to that level, the owner can buy emission allowances from other parties who have lowered their emissions below the mandated level or who have provided other carbon dioxide offsets. A mandatory cap-and-trade program thus gives those for whom it is cheapest and easiest to cut emissions most incentive to do so. The BPU would share the responsibility for implementing the RGGI with the New Jersey Department of Environmental Protection.
Discussion Points (Cont'd)

On February 13, 2007, Governor Corzine issued Executive Order #54 of 2007, establishing that New Jersey’s greenhouse gas emissions shall be stabilized at 1990 levels by 2020 and reduced to 80 percent below 2006 levels by 2050. The Executive Order directed the Department of Environmental Protection, in coordination with representatives of the BPU, the Department of Transportation, the Department of Community Affairs, and stakeholders, to evaluate policies and measures that would enable the State to achieve the intended greenhouse gas emissions reductions.

- **Questions:** Please provide an update on the implementation of the RGGI model regulations. By which date does the BPU intend proposing the regulations for adoption? Will the implementation of the proposed policies require legislative action? If so, please indicate the areas concerned. Would New Jersey still implement the model regulations if it became the only state to do so? If not, what does the BPU consider to be the critical mass for implementation? Would carbon dioxide emissions allowances be allocated at no cost to individual power plants based on their 1990 emission levels or would they be auctioned off? Based on the analysis underpinning the choice of the RGGI targets, what is the probability, or risk, that New Jersey will not meet its emissions target? What consequences does the RGGI envision for states that miss their emissions target? What would be the monetary impact on ratepayers of implementing the RGGI targets? Please explain how the New Jersey Clean Energy Program would realize an estimated annual revenue gain of about $20 million from revenues of emission credits under an implemented RGGI.

- Please detail the contributions of the BPU to the elaboration of a statewide policy framework designed to reach the greenhouse gas emissions targets set forth in Executive Order #54 of 2007. What does the BPU expect to be its responsibilities in this effort?
Background Paper: Asset Monetization and the State Lottery

Overview

The administration is currently considering selling or leasing a wide range of publicly-owned State assets. Last year, UBS Investment Bank released an initial assessment, State of New Jersey: Asset Evaluation Program Phase 1 Report, evaluating current market conditions and public-private partnership structures for “monetizing” the State’s most valuable assets. Along with toll roads and port facilities, naming rights and rights-of-way, UBS determined that the sale or lease of the New Jersey Lottery was capable of capturing significant value in the current marketplace because of its strong cash generation, favorable growth prospects, and potential for innovation.

In illustrating the Lottery’s potential value, UBS’s report outlined a series of steps that would have to precede a sale or lease. Beyond additional evaluations of regional demographics and marketing opportunities, UBS recommended drafting legislation to advance public-private partnerships and to maintain oversight after the Lottery is removed from the public domain. While the report also emphasized addressing social control issues and potential resistance from the casino industry, it overlooked the need to amend the State Constitution. In February, the Office of Legislative Services advised the Senate Wagering, Tourism, and Historic Preservation Committee that a sale or lease of the Lottery could not be effectuated without voter approval.

Additional Proposals

While the Executive remains vague about its intentions to sell or lease the Lottery, other states have advanced initiatives to yield control of their gaming operations. In states like Texas and Maryland interest has merely begun to percolate, but specific proposals have progressed in Illinois and garnered attention in Indiana, where the state Senate approved legislation to contract operation of the Hoosier Lottery to a private firm for the next 30 years. The measure pending before Indiana’s lower House exchanges state control of day-to-day operations for a minimum of $1 billion upfront and $200 million each year over the duration of the agreement. In a similar proposal in California, Governor Arnold Schwarzenegger recently unveiled a proposal to lease the state lottery to an investment firm for 40 years in return for an estimated $37 billion.

Absent specific proposals, any estimates of a return to the State from a sale or lease the New Jersey Lottery are speculative at best. Without knowing the parameters of an agreement, duration of a lease, or extent of public-private partnership control, an exact dollar amount is difficult if not impossible to gauge. Despite the uncertainty of an arrangement, what remains clear is the Lottery’s financial importance for the State of New Jersey. After receiving voter approval in 1969, the Lottery has become one of the State’s largest, most consistent sources of revenue. The aspects of the Lottery that have contributed to its consistency, growth, and innovation are some of the same factors that attract the attention of investors. This backgrounder identifies these aspects and provides an overview of the changes that have allowed the Lottery to emerge as the State’s 4th largest revenue stream.

The author of this paper wishes to acknowledge the research of Amy Denholtz, Henry J. Raimondo New Jersey Legislative Fellow, who provided assistance in analyzing public-private partnership proposals.
Background Paper: Asset Monetization and the State Lottery (Cont’d)

Gross Sales

Since the first ticket was sold in December of 1970, the Lottery has generated a total of $38.8 billion in gross revenues. Despite fluctuations in the economy, shifts in consumer spending, and the development of lotteries in surrounding states, the Lottery has demonstrated steady, consistent growth. Beyond its first five years of operation, gross sales have recorded positive figures in all but three fiscal years. As illustrated above, declines in gross sales have been short-lived. Drops in sales in fiscal years 1990, 1997, and 2001 were met with corresponding increases of 3%, 4%, and 13% in 1991, 1998, and 2002, respectively.

Following the decline in 2001, annual gross sales have increased uninterrupted. For fiscal year 2006, gross sales of lottery tickets totaled $2.406 billion, representing a 6% increase in sales over the previous fiscal year. The strength in sales has allowed New Jersey to retain its status as a leader in the operation of state lotteries. In comparison to lotteries in 41 other states, New Jersey ranked eighth in terms of total sales and among the top five in per capita sales for 2006.

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<td>Michigan</td>
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Source: North American Association of State and Provincial Lotteries (NASPL), Sales and Profits 2007

Lottery Games

While continuity and consistency characterize lottery sales, changing products and prizes have helped characterize State lottery games. Initially designed as a basic numbers sweepstakes comprised of bimonthly drawings, the State Lottery has evolved into a comprehensive gaming operation composed of instant, online, and multistate games with daily numbers drawings.
Background Paper: Asset Monetization and the State Lottery (Cont'd)

Along the way the State Lottery has experimented with various games, drawings, and prizes to remain responsive to consumers and receptive to retailers.

As in previous years, ticket sales in fiscal year 2006 were driven by the strength of sales in instant games. With various thematic-based scratch-off games awarding prizes of up to $1 million, combined sales of instant games remained above the $1 billion mark for the second consecutive year. While ticket sales of Pick 3, Jersey Cash 5, and Mega Millions displayed positive growth, the combined sales of all numbers games exceeded instants by less than $123 million. The reliance on instant games is not unique to New Jersey. National sales of instants have outpaced traditional numbers games since 2004, accounting for an estimated 55% of total national lottery revenue.

Prizes and Commissions

Fiscal year 2006 also featured an increase in prizes and a boost in commission payments to 6,100 retail agents located in communities throughout the State. By validating over 102 million winning tickets, the Lottery awarded more than $1.38 billion in prizes, approximately $83 million more than in fiscal year 2005.

By terms of contract, retail agents received commissions of 5% for total tickets sales and 1.25% for all terminal validations. Over the course of the year, the State Lottery returned nearly $134 million in the form of commissions to retail agents, an increase of 5.8% from fiscal year 2005.

Lottery Administration

The percentage of commissions to retail agents aside, total expenditures for the administration of the Lottery remained in line with previous fiscal years. At the close of 2006, administrative expenses for the operation of the Lottery totaled $29.6 million, accounting for roughly 1.2% of the total operating revenue.
In comparison to other administrative expenditures, advertising accounted for the largest portion of administrative expenses, surpassing the $18 million mark in 2006. With 150 employees providing management, marketing, sales, and security services from Lottery headquarters and four district offices, expenditures for salary ($8.5 million) as well as buildings and grounds rent ($1 million) represented the 2nd and 3rd largest administrative expenses. Despite the increases in these areas, 2006 had measurable declines in expenditures for printing and office supplies, data processing, travel, and information processing equipment, a trend that is expected to continue in the future.

Aid to Education and State Institutions

The “State Lottery Law” (N.J.S.A.5:9-1 et seq.) requires the Lottery Commission to annually allocate a minimum of 30% of gross revenues to the general Fund for aid to education and State institutions. Over the years, dedicated funding has supported a variety of programs and institutions in the Departments of Agriculture, Education, Human Services, and Military and Veterans’ Affairs.

In fiscal year 2006, the Lottery set aside $844 million for aid to education and State institutions. These revenues were appropriated for the support of centers for the developmentally disabled, State psychiatric hospitals, and homes for disabled soldiers as well as assistance to school nutrition programs and scholarships for higher education. For fiscal year 2008, the Executive has proposed dedicating $848 million in aid to education and State institutions, a $4 million increase above fiscal year 2006 to be allocated among tuition aid grants, higher education capital improvement programs, aid to county colleges, and the veterinary medicine education program.

Despite increases in Lottery revenues, the percentage of gross revenues dedicated to education and State institutions has declined to the lowest level in Lottery history. The $844 million appropriated for aid to education and institutions during fiscal year 2006 represented 34.6% of total gross revenues. While this percentage remains above the statutory minimum, it highlights a significant decline from gross revenue contributions which remained above the 41% mark throughout the 1970s, 80s, and 90s. As the percentage of gross revenues dedicated for the support of education and State institutions moves closer to the 30% threshold, the Lottery moves further away from the expectations of the State Lottery Planning Commission, which asserted in its 1970 final report that the statutory minimum should “increase significantly over time.”
Background Paper: The History of Homestead Rebates

Budget Pages.... D-462 to D-464

P.L.2007, c.62 redesigned the benefit structure of the New Jersey Homestead Property Tax Rebate program (C.54:4-8.57 et seq.) and renamed it the New Jersey Homestead Property Tax Credit program. Not counting limitations placed on homestead rebates in various appropriations acts, the latest modification marks the fifth version of the program since homestead exemptions began in FY 1977. This background paper traces the historical progression of program benefits and the associated budgetary outlay. Table 1 displays the statutory amounts for FY 2007, the actual amounts received in FY 2007 pursuant to budget language, the statutory benefit levels for FY 2008, and the amounts that would be allocated for FY 2008 according to the Governor’s recommendation. Table 2 indicates the annual budgetary expense on the homestead rebate program and, where available, the number of claimants.

The Original Homestead Property Tax Rebate Program

P.L.1976, c.72 as amended by P.L.1977, c.17 instituted homestead rebates as the precursor of today's homestead credits. First effective in FY 1977, all resident-homeowners could claim a rebate according to a formula that considered only equalized property values and effective municipal tax rates, with senior, blind, and disabled homeowners able to claim an additional $50. The formula equaled $1.50 per $100 on the first $10,000 of equalized value, or two-thirds of equalized value, whichever was less, plus 12.5 percent of the effective tax rate in the homeowner's municipality, multiplied by $10,000 of equalized value or two-thirds of equalized value, whichever was less (but rebates were capped at 50 percent of a homeowner's property tax liability). A 1977 amendment extended eligibility to tenants by granting them a $65 rebate, with senior, blind, and disabled tenants eligible for an additional $35 (P.L.1977, c.241). Between FY 1982 and FY 1990, the program cost around $300 million per year with 1.5 million taxpayers receiving rebates averaging about $195.

The Homestead Property Tax Rebate Act of 1990

The "Homestead Property Tax Rebate Act of 1990" (P.L.1990, c.61) reshaped the program, introducing a taxpayer's tax filing status, income, and property taxes paid as factors in determining rebate amounts. Homeowners and tenants filing jointly with incomes in excess of $100,000 became ineligible. Homeowners filing jointly with incomes in excess of $70,000 and no more than $100,000 received a $100 rebate, while similarly situated tenants received $35. Homeowners filing jointly whose income was up to $70,000 received between $150 and $500, depending on the extent to which property taxes paid exceeded five percent of income, and similarly situated tenants received between $65 and $500, depending on the extent to which rent constituting property taxes (18 percent of rent paid) exceeded five percent of income. The income requirements for single filers were 50 percent of the ones for joint filers. In FY 1992, the cost of the program rose to $707 million, as 2.5 million claimants received rebates averaging $290.

Budgetary constraints led to language provisions in the appropriations acts that restricted program eligibility and certain rebate amounts from FY 1993 through FY 1999. Only senior, blind, and disabled residents with incomes of up to $70,000 were allowed to receive full
Background Paper: The History of Homestead Rebates (Cont'd)

statutory rebates, while other individuals with incomes of up to $40,000 qualified for reduced amounts: $90 for homeowners and $30 for tenants. Throughout these years, the program’s annual outlay was around $325 million, as the State issued about 1.5 million rebates averaging approximately $225.

The NJ SAVER and Homestead Rebate Act

Homestead Rebates: In 1999, the "New Jersey School Assessment Valuation Exemption Relief and Homestead Property Tax Rebate Act (the NJ SAVER and Homestead Rebate Act)" (P.L.1999, c.63) integrated prior budget language restrictions into the statutes and introduced the NJ SAVER, which extended property tax relief to residents who became ineligible for homestead rebates. In addition, the act gradually increased homestead rebate amounts for tenants with incomes not exceeding $100,000 from $30 in FY 2000 to $100 in FY 2004. Residents could not receive both, a homestead and a NJ SAVER rebate.

A 2001 amendment increased the maximum rebate amount from $500 to $750 for homeowners and from $60 to $100 for tenants effective FY 2002 and indexed the maximum amounts to inflation thereafter (P.L.2001, c.159). Consequently, the average rebate grew from $219 in FY 2001 to $319 in FY 2003, and the total outlay rose from $331 million in FY 2001 to $506 million in FY 2003. FY 2004 budget language suspended the cost-of-living adjustment for one year and thus maintained the $775 FY 2003 maximum, which otherwise would have risen to $790.

NJ SAVER: From FY 2000 through FY 2004, the NJ SAVER provided property tax relief to homeowners who did not qualify for homestead rebates. As of FY 2005, the NJ SAVER became consolidated into the Homestead Property Tax Rebate program.

The NJ SAVER instituted school property tax relief in the form of a rebate check equal to the 1997 equalized school tax rate applied against the first $45,000 of equalized assessed value of eligible owner-occupied, primary residences. Under a five-year phase-in provision, homeowners were to receive 20 percent of the full rebate amount in FY 2000, 40 percent in FY 2001, 60 percent in FY 2002, 80 percent in FY 2003, and 100 percent as of FY 2004. In 2001, an amendment accelerated the phase-in to 83.3 percent in FY 2002 and to 100 percent as of FY 2003, a year earlier than under the initial schedule (P.L.2001, c.106).

Full NJ SAVER rebate amounts were never paid, as budgetary pressures prompted the State to curtail the scope of the program through budget language restrictions. The FY 2003 Appropriations Act limited eligibility to homeowners with incomes not in excess of $200,000 and suspended the phase-in schedule, so that rebates remained at 83.3 percent of the full statutory amount. The FY 2004 Appropriations Act reduced the FY 2003 amount by 50 percent and maintained the income eligibility requirement.

Apart from FY 2002, when the program had 1.45 million beneficiaries, about 1.25 million homeowners participated in every fiscal year. Subject to the statutory phase-in schedule, the average NJ SAVER amount was $115 in FY 2000, $236 in FY 2001, and $500 in FY 2002. The FY 2003 restrictions resulted in an average amount of $505, which the FY 2004 limitations reduced to $256. Program cost mirrored the average rebate trend: in FY 2000, it was $144.3 million; in FY 2001, $297 million; in FY 2002, $724.4 million; in FY 2003, $630.8 million; and in FY 2004, $297.3 million.
Background Paper: The History of Homestead Rebates (Cont’d)

2004 Homestead Property Tax Rebate Act

The "2004 Homestead Property Tax Rebate Act" (P.L.2004, c.40) folded the NJ SAVER rebate program into the homestead rebate program and raised rebate amounts to up to $1,200 for certain taxpayers as of FY 2005. To finance the higher benefits, the marginal tax rate on incomes above $500,000 increased from 6.37 percent to 8.97 percent. Accordingly, the program’s FY 2005 expenditures of $1.54 billion surpassed its FY 2004 funding level by $726 million, or 90 percent. A resident’s statutory rebate amount became the amount by which property taxes paid exceeded five percent of income, subject to a cost-of-living adjustment, the taxpayer’s income, property taxes paid, filing status, whether the taxpayer was a homeowner or tenant, and whether the taxpayer was 65 years of age or older or disabled or both. Senior, disabled, and blind homeowners received rebates ranging from $500 to $1,200 and all other homeowners from $500 to $800. Senior, disabled, and blind tenants’ rebates ranged from $150 to $850 and all other tenants received a $150 rebate.

FY 2006 homestead rebate spending fell to $1.1 billion, a $442 million, or 29 percent, decline from the FY 2005 funding level. The State realized the savings from restrictions it placed on rebate amounts for non-senior homeowners and tenants (ceilings were either $300 or $350 for homeowners and $75 for tenants). Senior homeowners and tenants, on the other hand, were still eligible for their full statutory rebate amounts.

A language provision in the FY 2007 Appropriations Act overrode the statutory cost-of-living adjustment to benefit amounts for senior, disabled, and blind recipients (3.64 percent) and reduced rebates for other beneficiaries. Instead of statutory benefit levels ranging from $520 to $830, such homeowners with annual incomes of no more than $200,000 received payments ranging from $200 to $350. Such tenants with annual incomes of no more than $100,000 received $75 in lieu of the statutory $160. Hence, the State projects the FY 2007 homestead rebate program to cost $1.06 billion, a year-on-year decrease of $39 million, or 3.7 percent.

As of FY 2008: Homestead Property Tax Credit Act

Effective as of FY 2008, P.L.2007, c.62 revised the homestead rebate program and renamed it the New Jersey Homestead Property Tax Credit program. The act altered the benefit structure for homeowners while maintaining the tenant structure, apart from a requirement that the FY 2008 appropriation for the tenant program must double the FY 2007 appropriation. Clarifying the tenant program, a language provision in the Governor’s FY 2008 Budget proposes specific new one-year tenant benefit levels. In FY 2008, the Governor recommends appropriating $2.25 billion to the program, a funding increase of $1.19 billion, or 113 percent, to provide benefits to an estimated 1.84 million homeowners and 796,000 tenants.

Homeowners with an annual gross income of no more than $250,000 now receive maximum credit amounts ranging from $1,000 up to $2,000. Senior, disabled, and blind tenants with an annual gross income of up to $100,000 would receive unaltered statutory rebate amounts ranging from $160 to $860 (including a 3.9 percent inflation adjustment). A language provision in the Governor’s Fiscal Year 2008 Budget would set the FY 2008 maximum benefits for non-senior, non-disabled, and non-blind tenants with annual gross incomes of up to $100,000 at between $80 and $350, which may or may not exceed the statutory $160 benefit.
### Background Paper: The History of Homestead Rebates

#### Table 1
Homestead Property Tax Rebate and Credit Amounts
FY 2007 Statutory and Budget Language, FY 2008 Statutory and Budget Language

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Background Paper: The History of Homestead Rebates (Cont’d)

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* Estimated
OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services provides nonpartisan assistance to the State Legislature in the areas of legal, fiscal, research, bill drafting, committee staffing and administrative services. It operates under the jurisdiction of the Legislative Services Commission, a bipartisan body consisting of eight members of each House. The Executive Director supervises and directs the Office of Legislative Services.

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Individuals wishing information and committee schedules on the FY 2008 budget are encouraged to contact:

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State House Annex
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Trenton, NJ 08625
(609) 292-8030 • Fax (609) 777-2442